PFG | Provident Financial Group

New boiler, new cooker, new coat.
Maintaining the flow of credit through turbulent times.

Annual Report & Financial Statements 2009

Contents

Financial highlights for the year ended 31 December 2009:

£130.1m
(2008: £128.8m)
Profit before tax and exceptional costs

71.4p
(2008: 70.9p)
Basic earnings per share before exceptional costs

£125.7m
(2008: £128.8m)
Profit before tax

67.5p
(2008: 70.9p)
Basic earnings per share

63.5p
(2008: 63.5p)
Dividend per share

£331m
(2008: £251m)
Headroom on committed facilities

2.3m
(+5.4%)
Total number of customers

£1,139m
(+7.1%)
Year-end receivables

FSA Disclosure and Transparency Rules: For the purposes of DTR4.1.5R(2) and DTR4.1.8, the Directors' report is deemed to be the Management Report.

Cautionary statement: All statements other than statements of historical fact included in this document, including, with limitation, those regarding the financial condition, results, operations and business of Provident Financial plc and its strategy, plans and objectives and the markets in which it operates, are forward-looking statements. Such forward-looking statements which reflect the directors' assumptions made on the basis of information available to them at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Provident Financial plc or the markets in which it operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in the document shall be regarded as a profit forecast and its directors accept no liability to third parties in respect of this report save as would arise under English law. In particular, section 463 of the Companies Act 2006 limits the liability of the directors of Provident Financial plc so that their liability is solely to Provident Financial plc.

Maintaining the flow of credit in turbulent times.

The greatest challenge for a credit company in this difficult economic climate is to maintain the flow of credit to those customers who are in a position to take on such a commitment. And when those customers have modest incomes and little in the way of savings, it is doubly important to give them access to the small sums of credit they need, exactly when they need it.

It is not always appreciated just how crucial access to credit is for those on modest incomes. Wealthier consumers have bigger household budgets and often have access to numerous credit sources if they want to borrow three or four hundred pounds.

For many home credit customers, three or four hundred pounds is a major commitment and they want to arrange the loan in such a way that it will be made easy to make their repayments. If their circumstances change and they need to make reduced payments or even stop repayments occasionally, they want to know they will get a sympathetic response.

And for those on modest incomes who want to participate in today's world of internet shopping, but only require a small line of credit, having a Vanquis Bank credit card with a credit limit as low as £250, brings them into the modern world.

In 2009, we have succeeded in continuing to lend the small amounts of credit that our customers have asked for. We have managed to do this by:

- having products tailored to our customers' circumstances that help them keep up to date with their repayments;
- securing a diverse range of committed funding sources to meet planned growth; and
- actively managing our business to respond to the new challenges being presented in these difficult times.

Whether it is a new boiler, a new cooker or a new winter coat, in 2009 we continued to meet the needs of our customers.

Our business at a glance

With 2.3 million customers, we provide tailored credit products to more non-standard customers than any other lender in the UK. Within our Consumer Credit Division, we have been providing small loans, issued in the home and collected weekly, since 1880. Through Vanquis Bank, we issue credit cards designed to help more people play a fuller part in today's modern world.

Home credit loans are useful for smoothing out the family budget and paying for unexpected items.

Our Vanquis Bank credit card enables customers to shop online and over the telephone.

The group at a glance

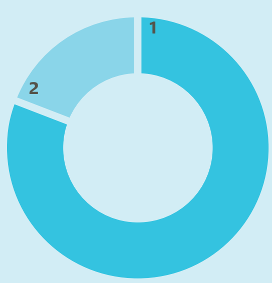
The largest part of the group is the Consumer Credit Division which offers home credit loans through a network of local agents as well as larger loans repaid by direct debit. Vanquis Bank, our credit card business, continues to show good progress towards its medium-term targets.

11,600

Total number of home credit agents

3,700

Total number of group employees



Split of customers by business

1	Consumer Credit Division 1,856,000	81%
2	Vanquis Bank 426,000	19%

Where we operate

Headquartered in Bradford, our Consumer Credit Division has offices in every major town and city in the UK. 11,600 agents call weekly on our 1.8 million customers, reaching around one in 20 households in the UK. Vanquis Bank has its headquarters in central London with a call centre in Chatham, Kent which handles around 450,000 customer calls per month.

Operational facts – UK and Ireland

10m	Number of UK non-standard credit customers
8	Number of home credit divisions
42	Number of home credit regions
420	Number of home credit branches

John van Kuffeler
Chairman

Maintaining the flow of credit through turbulent times

The group's strategy is focused on lending responsibly and maintaining the flow of small-sum, unsecured credit to non-standard consumers who are typically less able to access credit from other lenders and may otherwise face financial exclusion.

Group results
The group has produced a solid performance in 2009, as a result of the careful management of growth, impairment and costs against the backdrop of a worsening economic environment. As planned, the rate of growth in customer numbers in both businesses has been slower than in 2008. Underwriting criteria were tightened further in the first half of the year in order to maintain credit quality during a period when the economy was deteriorating quite sharply. During the second half of the year, the pressure on customers' incomes from a weak employment market did not abate and both businesses maintained a tight stance on the granting of credit. In addition, existing customers exhibited increasingly cautious behaviour during 2009 which tempered demand for credit and was exacerbated by the adverse weather conditions during the peak trading weeks in December.

The investments made towards the end of 2008 in creating an additional 120 field management roles to increase the home credit collections capacity and in expanding contact centre capacity at Vanquis Bank have proved to be the right approach to managing through these difficult market conditions. As a result, both businesses have maintained good collections performances during 2009.

The market test of Real Personal Finance has been completed and a decision made to focus direct repayment business solely on known prospects generated through the home credit branch network and customer database.

Group profit before tax and exceptional costs was up 1.0% to £130.1m (2008: £128.8m) and basic earnings per share, as adjusted for exceptional costs, was 71.4p (2008: 70.9p).

The group's funding and liquidity positions have been further enhanced, with the balance sheet showing modest gearing in comparison to bank covenants and a significant surplus of regulatory capital. The group has successfully diversified its funding sources during 2009 through the issue of its £250m 10-year senior bonds. Undrawn committed bank facilities at the year end amounted to £331.0m. The group has also recently entered into forward-starting arrangements which extend syndicated bank facilities totalling £380m to May 2013 and has ample funding to execute its growth plans and meet contractual maturities for at least 18 months.

The proposed final dividend is maintained at 38.1p per share (2008: 38.1p) reflecting the company's policy set out at the time of the demerger to at least maintain a full-year payment of 63.5p per share whilst moving to a target payout ratio of 80% of post-tax profit in the medium term.

Market conditions

The group's strategy is focused on lending responsibly and maintaining the flow of small-sum unsecured credit to non-standard consumers who are typically less able to access credit from other lenders and may otherwise face financial exclusion.

Household incomes in those segments of the non-standard lending market served by the group's businesses have been and remain under pressure from the impact of rising unemployment and, more importantly, under-employment resulting from restrictions on working hours and wage rates.

Management have carefully positioned the group's businesses since the middle of 2007 in anticipation of a material deterioration in the economic environment. Underwriting standards have been progressively tightened to maintain credit quality which, together with the investments made to enhance collections capacity, have been successful in mitigating the impact of the deteriorating economic environment on the group's impairment charge.

The group's planning assumptions do not anticipate that employment conditions will improve for some time. Accordingly, a tight stance to underwriting will be maintained throughout 2010.

During the second half of 2009, there was an increase in the level of caution exhibited by some consumers who are experiencing pressure on their household incomes and face uncertainty over their future prospects. This increased caution, exacerbated by adverse weather conditions in the run-up to Christmas, tempered the demand for credit from established home credit customers during the peak fourth quarter trading period. Cautious consumer behaviour is expected to persist through 2010, resulting in relatively modest growth in receivables. As a result, there will be a strong focus on cost efficiency.

The competitive landscape for home credit providers has remained largely unchanged throughout the economic downturn. Whilst Provident Financial continues to be the largest operator in this segment, there are some 500 other home credit businesses that compete actively, many of whom operate in a single town or region.

In contrast, most businesses which operated in the direct repayment or credit card segment of the UK non-standard lending market have either failed, withdrawn or restructured. This presents a strong market opportunity for Vanquis Bank as an established participant in the non-standard credit card market. At present, the direct repayment unsecured lending market has become dislocated by the collapse of the primary broker distribution channel and it is apparent from the market test of Real Personal Finance that many potential customers are carrying far too much debt. Accordingly, direct repayment loans will be restricted to customers already known through the home credit branch network.

“The group's funding and liquidity positions have been further enhanced, with the balance sheet showing modest gearing.”

"The group has reported a solid performance in 2009 against the backdrop of pressure on customers' household budgets."

Regulation
The group is assisting with the Office of Fair Trading's review of the £35bn high-cost consumer credit market which it announced in July 2009. The review, which covers a broad range of lending activities of which home credit represents less than 5%, published its interim findings in December 2009 and is expected to conclude in April 2010.

The EU Directive on Consumer Credit has to be implemented in the UK by 31 January 2011. The regulations are still in draft form but the group has already commenced work to ensure it is able to comply with the new requirements by the implementation date.

The Department for Business Innovation and Skills is nearing its conclusion of the consultation on the future regulation of credit and store cards. The measures being debated centre upon transparency and putting the customer in control. Vanquis Bank is working closely with the UK Cards Association which is leading the industry's response to the consultation.

Outlook
The group has reported a solid performance in 2009 against the backdrop of pressure on customers' household budgets from rising unemployment and reduced working hours. The group's plans assume that these conditions will continue during 2010 and credit standards will be maintained to underpin the quality of new lending.

In 2010, the Consumer Credit Division is planning for relatively low receivables growth coupled with tight cost control. Accordingly, the business has recently implemented an efficiency programme across its central functions whilst leaving field collections and arrears management capacity unaffected. In addition, following the completion of the market test of Real Personal Finance, the decision has been made to focus direct repayment lending solely on known prospects sourced through the home credit business. This will result in a significant overhead reduction and losses will not continue through 2010.

Vanquis Bank is generating excellent growth and strong returns which leave it well placed to achieve its target of a 30% post-tax return on equity by the end of 2010.

Overall, the group's balance sheet and liquidity are extremely sound and it has positioned itself to deliver good quality growth for 2010 in market conditions that are unlikely to improve in the near term.

John van Kuffeler
Chairman
2 March 2010

Tailored products: tried and tested

With 2.3 million customers, Provident Financial already has more non-standard customers in the UK than any other lender.

Our products are specifically designed to meet closely the needs of non-standard customers, with high levels of flexibility and personal service delivered at prices that offer good value for money. We have been doing this since 1880 and have high levels of customer satisfaction.

94%

Home credit customer satisfaction rating

86%

Vanquis Bank customer satisfaction rating

Personal contact

No other lender takes the personal approach to lending as seriously as Provident Financial. In these days of impersonal, remote contact – often Internet-based – both the group and our customers benefit from more personal, face-to-face or telephone interaction. Home credit customers see their agent every week and Vanquis Bank maintains an ongoing dialogue with its customers by telephone from the outset so that any difficulties or queries can be identified early, discussed with the customer and actions agreed.

Small loans over a short term

Each of the group's businesses grants small-sum credit to customers over relatively short periods. We do this because this is what our customers want and it helps them stay in control. Our home credit business grants loans typically between £300 and £500 over about a year and Vanquis Bank's average credit card balance is around £600, with average credit limits of less than £900.

Tailored to customers' needs

One of the key features of our products is that they are tailored to the needs of customers in the non-standard market. Our home credit loans allow customers who are experiencing financial difficulties to miss the occasional repayment or temporarily make reduced repayments at no additional cost to themselves. Vanquis Bank customers who sign up for our Repayment Option Plan can miss one repayment every six months. Allowing customers to miss occasional repayments without imposing penalties helps them stay in control and remain as satisfied customers in the longer term.

What it means to our customers

Donna (opposite page) chose home credit because she wanted a small loan without having to borrow more than she needed. She also likes the reassurance of never having to worry about extra charges, and the weekly visit from her agent, Tracie, means she always knows where she is with her repayments.

Secure funding: robust and diverse

Our funding model has been designed to meet the needs of our businesses and to provide us with secure, diversely sourced funding without undue fluctuation in supply or price. This prudent approach to treasury management means that we have been able to continue to supply our customers with credit despite the crisis in global capital markets.

£331m

Headroom on committed funding facilities

1 year

Typical length of home credit loan

£50m

Amount of surplus equity capital

Strength and diversity in funding

We have relationships with a range of international banks who participate in syndicated arrangements which have recently been extended by way of forward-starting facilities, including £380m which is now committed until May 2013.

In October, we issued our first 10-year senior public bonds which, after repurchasing most of our subordinated loan notes, provided us with £156m of new funding and a more diversified funding mix.

Vanquis Bank has a banking licence which gives us the potential to take retail deposits.

Borrow long, lend short

We borrow money over periods of around four years on average, and our products typically have a loan term of around a year. This means we can adapt our lending to customers in good time to meet any changed circumstances in the external funding environment.

Arrange headroom to cover opportunity or risk

At any time, we have committed borrowing facilities comfortably in excess of those we require to meet our planned growth. This means we are more likely to be able to continue growing if funds become restricted for any reason or when market conditions improve. At the end of 2009, we had £331m of committed facilities arranged in excess of our borrowings.

Carry appropriate levels of capital

We continue to carry surplus equity capital of approximately £50m and have a comfortable level of surplus regulatory capital. We also have a modest level of gearing compared with the maximum permitted level under our banking covenants. This represents an appropriate mix of debt and equity capital to accommodate our growth plans.

What it means to our customers

Being securely funded means that we are able to offer our customers credit when they require it most. This is especially important to Tanya (left) and her partner, Lee, who are expecting their third child. They're using their home credit loan to decorate the nursery ready for the arrival of their new baby.

Active management: staying ahead of the curve

We continue to modernise our business and take the opportunities presented by the current environment to serve more customers in our target market. Key actions taken in 2009 include:

Increase in front-line management

In order to give the home credit field force adequate resources to manage the business on the ground and keep arrears and defaults at acceptable levels as the recession has deepened, we have reduced the spans of control in our field offices. During 2009, we invested in some 120 new field-based roles to support our field activity and maintain operational capacity.

Customer recruitment

At Vanquis Bank, customer recruitment channels continue to evolve. An increase in online display advertising contributed to 61% of new customers coming via the internet, and new card-issuing partnerships with other organisations brought additional new customers. We have also developed arrangements to consider customers who have been turned down by other credit card issuers.

Park Group Love2Shop vouchers

In our home credit business, we have replaced our own brand shopping voucher which we had offered for many years with the popular Park Group Love2Shop voucher. This has led to increased sales.

Tailored products

Only by applying a sufficient margin to our products can we remain profitable and so continue to supply our customers with the small amounts of credit they need. In deciding how much to charge for our products we take many factors into account including customer behaviour, market conditions, the competitive environment, and the current and forecast state of the economy. In 2009, we launched a new 50-week core product to replace the old 57-week product. The new product has a higher rate than the old product but provides a better fit with our customers' needs for a loan of around a year in length. We are not alone in adjusting pricing and our customers tell us that we continue to be competitive and offer good value for money.

£390

Average home credit loan amount

£640

Average Vanquis Bank credit card balance

£250

Typical initial Vanquis Bank credit card limit

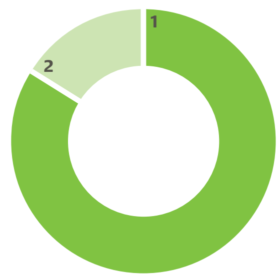
What it means to our customers

Gemma (opposite page) used Love2Shop vouchers to buy presents for her daughter Tabitha's third birthday. Gemma budgets on a weekly basis, so the repayment structure is ideal for her, and having vouchers meant that she didn't spend more than she had planned to.

The non-standard lending market

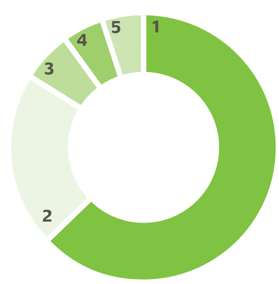
The latest published data from the Bank of England shows that total personal debt in the UK stood at just over £1.4 trillion at the end of 2008, of which the vast majority was secured on housing. Just over £200 billion of this personal debt was unsecured consumer credit.

Data from the Office of Fair Trading (OFT) shows that during 2008, gross advances of consumer credit totalled £192.9 billion with the bulk (£122.2 billion) in the form of credit cards. Unsecured personal loans accounted for £39.6 billion of lending, with the remaining £12 billion, £9.7 billion and £9.4 billion in the form of motor finance, overdrafts and retail finance respectively. Around £35 billion of this consumer credit is issued each year to the 10 million non-standard lending market in which Provident operates.



Outstanding balances

1	Secured £1,186bn	**80%**
2	Unsecured (consumer) £233bn	**20%**



Gross advances

1	Credit cards £122.2bn	**63%**
2	Unsecured personal loans £39.6bn	**21%**
3	Motor finance £12bn	**6%**
4	Overdrafts £9.7bn	**5%**
5	Retail finance £9.4bn	**5%**

The market we operate in
Provident competes in the non-standard part of the UK unsecured or consumer credit market, comprising around 10 million adults who typically would find it more difficult than most to obtain credit at low rates from mainstream providers due to their personal circumstances and credit history. The OFT recently estimated that this part of the market in the UK was worth around £35 billion annually.

Our marketplace
Provident offers home credit, unsecured personal loans and credit cards to non-standard consumers. The OFT identified the range of products typically used by consumers in this segment of the market, which were (in declining order of scale of annual gross advances) overdrafts, unsecured sub-prime personal loans, sub-prime credit cards, and agency mail order. The remaining 5% was made up of home credit, payday loans, pawnbroking, rent-to-own and bills of sale. Provident's products compete to varying degrees with all these sources of small-sum, short-term credit to meet the needs of non-standard consumers. Credit products that are tailored to the needs of the non-standard consumer tend to be more costly to deliver and incur higher risks for lenders and so pricing in this market typically exceeds that of the mainstream consumer credit market in the UK.

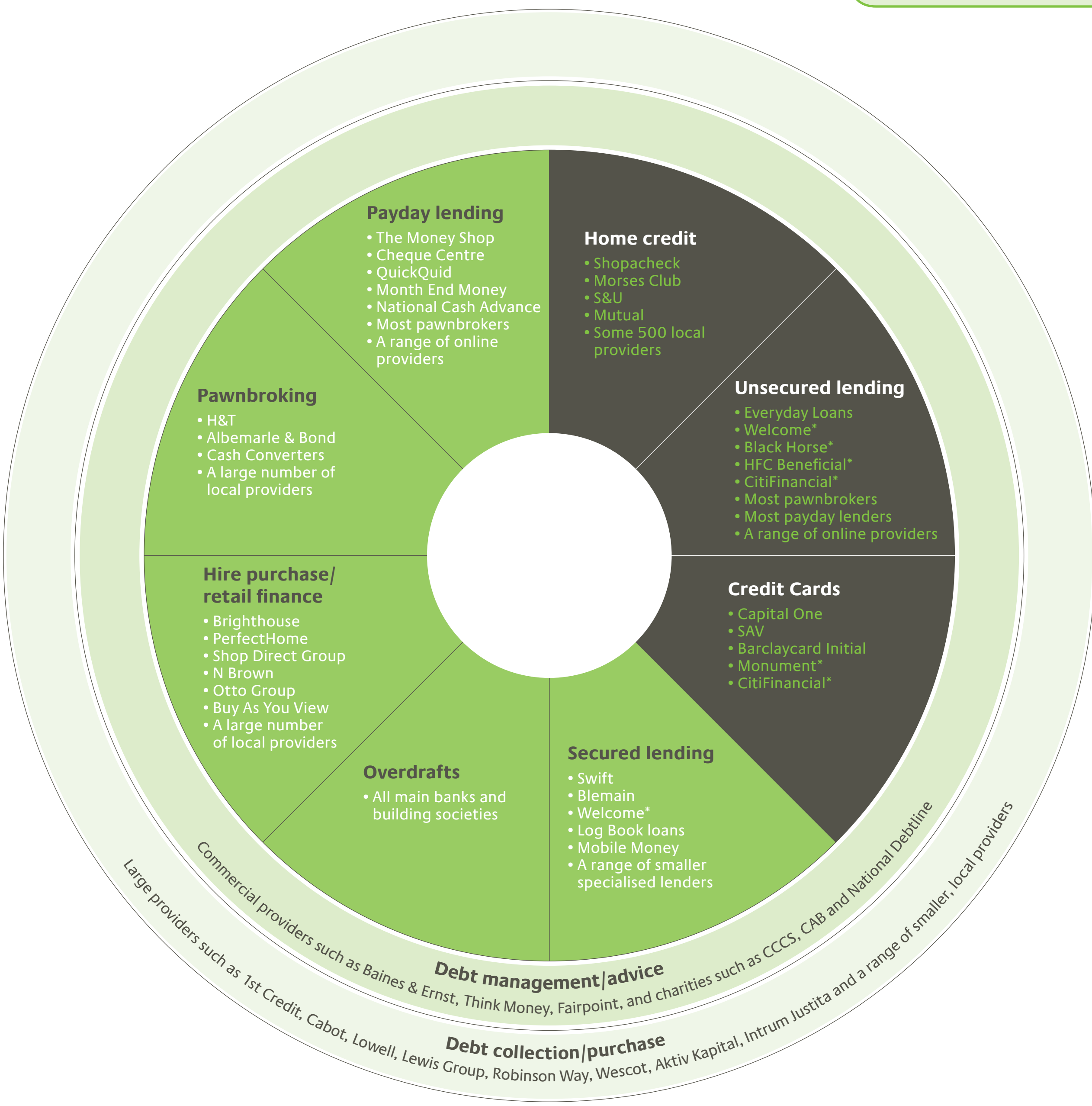
The non-standard lending market totals 10 million consumers and is a potential growth market.

10 million

Number of non-standard credit consumers

£35bn

Credit issued in small amounts over short periods to low income customers with limited access to credit



Provident Financial key markets

- Provident product offer
- Other

*These competitors are currently no longer extending credit, although they continue to collect repayments from existing customers and some may well begin lending again when conditions allow.

A straightforward approach delivering solid results

Peter Crook
Chief Executive

In our last two annual reports I explained why I thought we would remain relatively unaffected by the economic turbulence of recent times. I am pleased to report that in a year when many financial services companies have experienced major difficulties, that forecast has largely been borne out.

5.4%

Increase in group customer numbers

45%

Group return on equity

"Our straightforward approach continues to be the right formula for us in these turbulent times."

In 2009, we were again able to continue to supply our customers with the small sums of credit they need to smooth out the peaks and troughs of their expenditure. However, our home credit business has been affected by a reduction in demand as customers manage down their debt to a level they are comfortable with in the current economic downturn. In addition, we were affected by the adverse weather conditions in December which fell in our key trading weeks before Christmas. So, despite growing home credit customer numbers by a further 5.1% during 2009, we saw the amount of credit we issued remain in line with 2008.

The underlying features which make our business less susceptible to the current turbulent economy and credit constrained conditions still apply going forward. These are:

1. We do not have the type of complex financial products that are difficult, even for those in the industry, to understand; rather, we lend very small amounts to ordinary people.

2. Impairment in our loan book may be higher than those lending in the prime credit market but it is less volatile and so easier to price for the risk it presents.

3. We are not spread throughout the world with all the extra risks that brings. We trade solely in the UK and Ireland – a market we know well, having operated in the UK since 1880.

4. We borrow and lend in the most prudent way – by borrowing long and lending short.

5. We have an effective management team in place throughout the group, capable of intervening to take action in response to events and able to anticipate further changes in the market and the economy.

Our straightforward approach continues to be the right formula for us in these turbulent times. In 2009, we delivered profit before taxation and exceptional costs of £130.1m, up £1.3m on 2008. This rate of growth is lower than we would have expected but the increasingly cautious behaviour exhibited by our home credit customers in the final quarter of 2009 shows that they have been affected by the tough economic conditions we are experiencing. We are confident that the actions taken in 2009 will stand us in good stead as the economy recovers.

Our strategy

The group's objective is to be the leading non-standard lender of choice in the UK and Ireland and a clear strategy has been developed to achieve this.

In order to assess performance against its strategic objectives, the group uses a number of key performance indicators (KPIs). These comprise both financial and non-financial measures. Whilst these KPIs are helpful in measuring the group's performance, it should be stressed that they are not exhaustive and that many additional performance measures are also used to monitor performance and progress against objectives.

The group's strategic aims, together with the KPIs used to assess performance, are set out overleaf.

Delivering our strategy and KPIs

Strategic aim	Our strategy	KPI and description
Growth of higher return businesses in the UK and Ireland non-standard market	— Grow and modernise our home credit business. — Bring Vanquis Bank up to full operational scale, generating significant returns. — Extend our product offerings to cover more of our chosen market.	**Customer numbers** — The number of active customers within each business. **Return on equity** — Profit after tax, excluding the impact of exceptional costs, divided by average equity. *Equity is stated after deducting the group's pension asset and the fair value of derivative financial instruments, both net of deferred tax, and the proposed final dividend.*
Generating shareholder returns	— Generate sustainable growth in profits and dividends generating returns in excess of the group's weighted average cost of capital.	**Total Shareholder Return (TSR)** — The increase in the value of the group's shares together with any dividend returns made to shareholders. TSR is measured over a cumulative period since demerger to a maximum cumulative period of three years. **Adjusted earnings per share** — Profit after tax, excluding the impact of exceptional costs, divided by the weighted average number of shares in issue, excluding own shares held. **Dividend per share** — Total dividends for the year, including the interim dividend paid and the proposed final dividend, divided by the number of shares in issue, excluding own shares held.
Maintaining a secure funding and capital structure	— Maintain sufficient equity and borrowing facilities to sustain the group's operations and fund growth over at least the next 12 months. — Continue to diversify sources of funding for the group.	**Gearing** — Borrowings (based on contracted rates of exchange) divided by equity. *Equity is stated after deducting the group's pension asset and the fair value of derivative financial instruments, both net of deferred tax, in line with the group's banking covenants.* **Borrowings headroom** — Total committed borrowing facilities less actual borrowings.
Acting responsibly in our relationships with customers and making a positive contribution to the communities served by the group's businesses	— Earn high levels of customer satisfaction. — Invest in the communities in which our customers and agents live and in which our staff work. — Maintain a system to manage corporate responsibility. — Meet or exceed regulatory requirements on fairness and responsible lending. — Follow our corporate values in the treatment of our stakeholders.	**Customer satisfaction** — The percentage of customers surveyed who are satisfied with the service they have been offered. **Investment in the community** — The amount of money invested in support of community programmes (based on the London Benchmarking Group's guidelines) and donated for charitable purposes.

Performance in 2009	Plans for 2010
— Group customer numbers up by 5.4% to 2.28m (2008: 2.17m). **— ROE of 45% (2008: 46%).** — Consumer Credit Division: • Home credit customer growth of 5.1% to 1.842m (2008: 1.753m). • Effective management through economic downturn by tight controls over issue of credit and investment in field-based collections capacity. • Introduced a new, modern home credit voucher product, Love2Shop, accepted by a wider choice of retailers. • Fourth quarter demand in core home credit business affected by relatively weak customer demand and adverse weather conditions in December. • Home credit full year profits of £128.9m (2008: £128.8m). • Real Personal Finance market test concluded incurring a loss of £7.7m (2008: loss of £2.7m). — Vanquis Bank: • Grew customer numbers by 5.4% to 426,000 (2008: 404,000), receivables by 24% to £255.5m (2008: £205.4m) and profits by 76% to £14.1m (2008: £8.0m). • Further tightening of underwriting and careful management of revenue yield mitigated pressure from credit losses and maintained risk-adjusted margin of 30%.	— Continue to grow customers in home credit at a rate consistent with maintaining an appropriate balance between growth, credit quality and operational capacity to build returns. — Against difficult market conditions, including subdued demand for credit, continue the focus on maintaining credit quality and cost control. — Direct repayment product to be sold as a product extension within the home credit business following completion of the market test. — Continue to grow Vanquis Bank towards its new medium-term objective to grow receivables to £450m by the end of 2012 whilst maintaining a post-tax return on equity of 30% and a cautious approach to granting credit.
— TSR +16.9% since demerger compared with –15.9% for the FTSE 250 over the same period. **— Adjusted EPS of 71.4p, 0.7% higher than 2008 (2008: 70.9p).** **— Dividend per share maintained at 63.5p (2008: 63.5p).**	— Continue the commitment made at the time of demerger to at least maintain the dividend per share at 63.5p.
— Gearing stable at 3.3 times (2008: 3.2 times) compared with a banking covenant of 6.0 times in 2009, reducing to 5.0 times in 2010. **— Headroom on committed borrowing facilities of £331m (2008: £251m) as at 31 December 2009.** — Debut issue of 10-year senior public bonds to raise new funds of £156m, repurchase £94m of subordinated loan notes and further diversify funding sources. — Extension of bank facilities maturing in March 2010 by one year in February 2009. — Maintained a Fitch rating of BBB+. — Surplus equity capital of approximately £50m and regulatory capital comfortably in excess of FSA requirements.	— Aim to maintain committed borrowing facilities which provide funding headroom for at least the following 12 months. — Maintain capital and gearing at prudent levels. — Continue to consider further opportunities to diversify funding sources.
— Customer satisfaction of 94% for home credit (2008: 95%) and 86% for Vanquis Bank (2008: 86%). **— Invested £1,329,000 in various programmes during 2009 to benefit the communities we serve (2008: £797,000).** — Introduced Good Neighbour, a major new strand in the group's community programme, comprising substantial funding for supporting: (i) projects within the communities we serve; (ii) employee volunteering schemes; and (iii) employee matched giving. — Continued to embed the group's core values into the behaviour of the organisation and our people through changes to HR, performance management and other processes. Progress now being measured through inclusion of value statements in customer, employee and agent surveys.	— Maintain or improve customer satisfaction levels. — Increase the group's investment in the communities we serve through the Good Neighbour initiative. — Measure the progress made against embedding the group's core values into the organisation.

+16.9%

Total Shareholder Return (TSR) since demerger

£1.3m

Investment in community programmes

"We made yet further progress in bringing Vanquis Bank firmly into profit and up to operational scale."

The economic environment will change again in 2010 with a General Election in the UK and the start of the process of cutting public spending and repaying the vast sums the Government has injected into the economy to reduce the effects of the recession. These continue to be uncharted and concerning times but I still believe we are as well placed as is possible to ride out the next stage of the economic troubles. We will continue to monitor impairment closely and to price our products competitively to make an appropriate return and so continue to meet the needs of our customers.

I am pleased to report that Provident Financial has made a positive Total Shareholder Return of 16.9% since demerger compared with a fall in the TSR of the FTSE 250 of 15.9%. This demonstrates the strength of the business in these turbulent times.

Our strategy

We aim to be the leading non-standard lender in the UK and Ireland, meeting the demand for credit from our customers. We will achieve this by generating good returns to reward shareholders and to fund our planned growth. We still believe the best returns will come from organic growth of our existing businesses which is where we will continue to apply our focus.

Our strategy to achieve growth is to expand and modernise our home credit business, to scale up our credit card business to achieve significant profitability, and to develop new products in the non-standard credit market to extend our reach.

We will maintain the prudent approach to the financial management and funding of the business which has served us well.

Progress in 2009

We continued to make good progress against our strategy in 2009.

We increased the number of customers served by our home credit business by 5.1% in 2009 and when demand for credit returns to more normal levels this will allow us to further increase the amount of credit we issue.

At the beginning of 2010, following a review of the market test for Real Personal Finance, a direct repayment loan product, we decided to restrict our direct repayment loans to customers with whom we already have a good relationship and to market the loans under the Provident Direct and Greenwood Direct brands.

We made yet further progress in bringing Vanquis Bank firmly into profit and up to operational scale and customer numbers and receivables stood at 426,000 and £255.5m respectively at the end of 2009. We are making good progress towards our new, medium-term targets for this business of growing receivables to £450m by the end of 2012 whilst maintaining a post-tax return on equity of 30%.

These are significant achievements in the current economic climate and, when combined with prudent financial management and our commitment to corporate responsibility, the group is in a strong position entering 2010. A more detailed report on our progress against our strategy can be found in the reports on the individual businesses.

In conclusion, our objective is to be the UK and Ireland's leading lender in the 10 million-strong non-standard credit market. This means having strong market positions in each of our businesses, operating in a sustainable fashion, being a highly regarded corporate citizen, and maintaining high customer satisfaction ratings. We are well placed to achieve those ambitions.

Peter Crook
Chief Executive
2 March 2010

Group
business review

The group has produced a solid performance in 2009 as a result of the careful management of growth, impairment and costs against the backdrop of a worsening economic environment. The group has a strong balance sheet and liquidity position.

2.3m

Total number of group customers

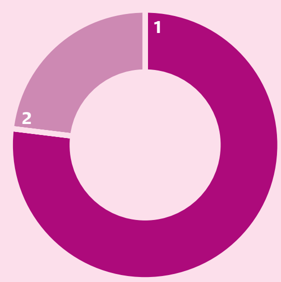
£130.1m

Profit before tax and exceptional costs*

*stated before exceptional finance costs of £4.4m.

Group results

	2009 £m	2008 £m	Change £m
Home credit	**128.9**	128.8	0.1
Real Personal Finance	**(7.7)**	(2.7)	(5.0)
Consumer Credit Division	**121.2**	126.1	(4.9)
Vanquis Bank	**14.1**	8.0	6.1
Yes Car Credit	**0.2**	(2.9)	3.1
Central:			
– costs	**(7.0)**	(5.5)	(1.5)
– interest receivable	**1.6**	3.1	(1.5)
Total central	**(5.4)**	(2.4)	(3.0)
Profit before tax and exceptional costs	**130.1**	128.8	1.3



Split of business divisions by year-end receivables

1	Consumer Credit Division £883.8m	**78%**
2	Vanquis Bank £255.5m	**22%**

Consumer Credit Division

Chris Gillespie
Managing Director, Consumer Credit Division

Home credit is Provident Financial's longest running business stretching back to the company's foundation in 1880. It is the largest home credit business in the UK and Ireland. Every week, 11,600 local agents visit 1.8 million customers (around one in 20 UK households) to issue loans and collect repayments. Even after 130 years, the business continues to flourish and fill an important space in the UK non-standard credit market.

Divisional strategy
- Broaden the product mix
- Grow customer numbers
- Continually improve credit management
- Continue to modernise the business

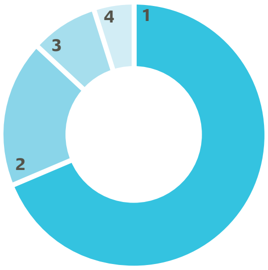
Home credit succeeds by offering simple, transparent financial products to customers on average or below-average incomes, some of whom may find it difficult to obtain or manage other forms of credit. The service is popular for very clear reasons: it's personal, friendly and flexible, and is well suited to the needs of our customers.

How home credit works
Provident is the UK and Ireland's leading home credit lender operating through the Provident Personal Credit and Greenwood Personal Credit brands which share a national network of over 400 branches. Provident and Greenwood provide small, unsecured cash loans, typically for sums of between £300 and £500. These are delivered to the customer's home by self-employed agents who then call every week to collect repayments. Unlike other forms of lending, home credit includes all the costs upfront. There are no extra charges whatsoever, even if a customer misses a payment. For those managing on a tight budget, it's important to know that the amount to be repaid is fixed at the start and will never go up. 86% of our customers consider our products to offer them good value for money.

Another advantage of home credit is the part played by the agent. Agents are paid commission on what they collect, not what they lend, so they have every reason not to lend more than their customers can afford to repay. That's good for the customer and a valuable check on impairment for the business. The agent's weekly visit is not only convenient for the customer but also acts as a useful reminder to put the money aside for the repayment. If customers get into difficulty, they know they'll get a sympathetic response from their agent. The home credit product is one that customers trust and positively want to use – which helps to explain why our customer satisfaction rates are consistently high. 94% of customers say they are satisfied with the Provident home credit service, and the vast majority say they would recommend Provident to family or friends.

The market and economic environment
There are over 10 million non-standard credit consumers in the UK, of which the home credit industry serves around three million. Provident Financial has 1.8 million home credit customers.

Divisional brands
- Provident Personal Credit
- Greenwood Personal Credit



Customer acquisition channels

1	Agent	69%
2	Internet	18%
3	Direct mail	8%
4	Other	5%

> The business demonstrated a good collections performance throughout 2009.

£128.9m

Home credit profit before tax

1.8m

Home credit customers

£866.0m

Home credit year-end receivables

The picture is changing, however. The tightening of lending criteria in response to the global scarcity of credit and increasing impairment has meant that mainstream lenders are not advancing credit to those at the margins of their lending models – many of whom would have been more suited to high service level, small-sum, home credit lending in any case. This presents an opportunity for us to win back some of the customers we have lost to more mainstream lenders over recent years. As a result, combined with the changes we have made to the business, after several years of gradual decline, home credit customer numbers have started to grow: up 2.1% in 2006, 5.3% in 2007, 6.2% in 2008, and 5.1% in 2009.

This continuing tightening of lending criteria by mainstream credit providers is leading to a growing non-standard market in the UK and presents a growing opportunity for home credit.

Home credit strategy

The strategy of the home credit business is to be the leading community-based lender in the UK and Ireland and to deliver profitable growth by lending responsibly and meeting customer needs.

Key activities in 2009

The main focus of our home credit business during 2009 has been to maintain the balance between growth, credit quality and collections performance. This is particularly important in the current difficult economic environment.

Increase in front-line management

In order to maintain an appropriate focus on collections activities during 2009, we created approximately 120 new field-based management roles and 30 new branches. This reinforces the spans of control over collections and arrears activities. The investment was made possible through stringent control over non field-based costs which has restricted the overall increase in the cost base to just 1.7% in 2009.

Cautious approach to underwriting

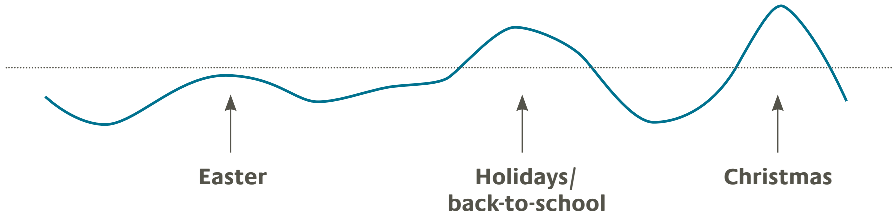
In anticipation of the marked deterioration in the economy, the home credit management team has maintained a cautious approach to lending for over two years now whilst continuing to maintain the flow of credit to our customers. To ensure the correct focus to manage bad debt risk, new customer growth was slowed in the first half of 2009 and greater selectivity through tougher scoring has been applied to the issue of further credit to existing customers. This has been supported by the continued development and deployment of analytical tools for assessing credit decisions together with the increased use of external data.

Tailored products

Only by applying a sufficient margin to our products can we remain profitable and so continue to supply our customers with the small amounts of credit they need. In deciding how much to charge for our products we take many factors into account including customer behaviour, market conditions, the competitive environment, and the current and forecast state of the economy. In 2009, we launched a new 50-week core product to replace the old 57-week product. The new product has a higher rate than the old product but provides a better fit with our customers' needs for a loan of around a year in length and better reflects customer behaviour and the current, turbulent state of the market and the economy. We also decided to restrict new customers from taking out some of our lower margin home credit products until they have established a good payment history with us.

We are not alone in adjusting prices in the non-standard (and indeed whole) credit market. Our customers continue to tell us that we offer good value for money and all of our home credit products remain highly competitive in the marketplace. Our customers can find a comparison of the price of home credit loans and other small cash loans available in their local area at www.lenderscompared.org.uk, an independent price comparison website.

Home-collected credit
Smoothing annual household expenditure



Typical use of home-collected credit

– Seasonal expenditure
– One-off purchases (eg. major appliances or unexpected car repairs)
– Back-to-school expenditure

Agents
Agents visit each of their customers at home every week. This uniquely personal approach to lending means that agents are well placed to lend each of their customers the amount that's right for them.

71%

Percentage of female agents

Stability of the agency force
The agency force has become more stable in terms of length of tenure and agent turnover. This is partly as a result of spans of control reducing from 12 agents per Development Manager at its peak to nine agents per Development Manager, and partly due to an improved agent commission system which has proved popular with agents. Agent turnover improved markedly in 2009 and agencies currently without an agent, and so being handled by a Development Manager, fell from 4.5% of all agencies to 3%.

Park Group Love2Shop vouchers
We have replaced our own brand shopping voucher which we had offered for a number of years, with the popular, market leading Park Group Love2Shop voucher. Sales of the Provident-branded shopping voucher had been falling slowly over the years because it did not have the appeal of the market leader and was not accepted in as many stores. This change has led to increased sales and shopping vouchers are now again an important element in our product portfolio.

Direct repayment loans
Direct repayment loans are a logical extension of the home credit model into a much larger market sector, adjacent to the weekly-collected home credit sector. Our approach capitalises on the strengths of our home credit business, not least of which is conducting the initial assessment interview in the customer's home, with payments collected through monthly direct debit. This model responds to customers' preferences for personal contact, and the home visit also means that each customer's circumstances can be individually assessed.

In 2009, we continued to test this market sector using the Real Personal Finance brand, offering larger loans than traditional weekly-collected home credit – from £750 to £6,000 – with typical APRs of between 80% and 120%. We ran the business within the Consumer Credit Division so it could share the resources of the home credit business, in particular its 400-strong branch network, thereby keeping overheads to a minimum.

The ongoing depressed state of the economy in 2009, together with the virtual collapse of the direct repayment, non-standard loans market, following the demise or withdrawal of a number of competitors, has led to the collapse of most of the credit brokers which had supplied a large proportion of our non group-introduced leads. There are no signs that credit brokers or other alternative intermediaries will return to the market in the short to medium term to allow a flow of good quality, new customer prospects. In January 2010, we decided therefore to restrict our offer of direct repayment loans to customers with whom we already had a good relationship. We will market these loans under the Provident Direct and Greenwood Direct brands.

Results

The Consumer Credit Division generated a profit of £121.2m in 2009 (2008: £126.1m) which can be analysed as follows:

	Year ended 31 December		
	2009 £m	2008 £m	Change %
Home credit	**128.9**	128.8	0.1
Real Personal Finance	**(7.7)**	(2.7)	(185.2)
Consumer Credit Division	**121.2**	126.1	(3.9)

Home credit

	Year ended 31 December		
	2009 £m	2008 £m	Change %
Customer numbers ('000)	**1,842**	1,753	5.1
Average customer receivables	**759.2**	704.8	7.7
Revenue	**673.7**	645.9	4.3
Impairment	**(216.7)**	(197.3)	(9.8)
Revenue less impairment	**457.0**	448.6	1.9
Impairment % revenue*	**32.2%**	30.5%	
Costs	**(288.4)**	(283.6)	(1.7)
Interest	**(39.7)**	(36.2)	(9.7)
Profit before tax	**128.9**	128.8	0.1

* Impairment as a percentage of revenue for the 12 months ended 31 December.

"The main focus of our home credit business has been to maintain the balance between growth, credit quality and collections capacity."

The rate of customer growth slowed from 6.2% in 2008 to 3.3% in the first half of 2009 as tighter credit criteria were applied to the acquisition of new customers and marketing activity was curtailed in order to manage credit risk and focus the agent force on collections. Promotional activity was stepped up during the autumn and, against continued tough scoring of applications, the customer growth rate moved up to 5.1% by the year end.

The year on year growth in average receivables slowed to 7.7% in 2009 from 10.9% in 2008. This remained ahead of customer growth due to sound credit quality and the ability to re-serve good quality new customers on short-term loans with the core one-year product. During 2009, the rate of average receivables growth slowed from 9.8% in the first half to 5.7% in the second half. Much of this resulted from the planned reduction in new customer growth and the tighter criteria applied to the issue of further credit to existing customers, particularly the issue of longer larger loans. However, it is also evident that existing customers became more cautious, concerned about their future prospects against the backdrop of rising unemployment, and pressure on household incomes from under-employment. This cautious behaviour had a greater impact on sales to existing customers during the second half of the year and was exacerbated by the adverse nationwide weather conditions which affected sales in the peak trading weeks in mid December.

Revenue growth of 4.3% was lower than the growth in receivables and reflected the impact arising from the Competition Commission remedy requiring higher early settlement rebates on loans issued after 13 December 2007, which had a limited effect until the second half of 2008. The remedy reduced revenue by £10m in 2008 and by a further £10m in 2009.

The impairment charge reflects a good collections performance throughout 2009, with the exception of the interruption to agents' rounds caused by the weather conditions in December which is not expected to have a material lasting effect. This was reinforced by tight credit standards and investment in collections capacity, including adding some 120 new field-based management roles at the start of the year. The underlying credit quality of the home credit receivables portfolio remains good. Impairment expressed as a percentage of revenue increased to 32.2% at the end of 2009 (2008: 30.5%), partly due to the impact of higher early settlement rebates on revenue. Impairment expressed as a percentage of average receivables increased to 28.5% in 2009 from 28.0% in 2008, underlining

Spreading the cost of Christmas

Christmas is an expensive time of year, especially for those on modest incomes. 37% of our customers take out a home credit loan to cover the cost of Christmas and birthdays. Customers can also choose to take their loan in the form of shopping vouchers.

> We have replaced our own brand shopping voucher with the popular, market leading Park Group Love2Shop voucher.

24%

Percentage of customers who use their loan for household items

37%

Percentage of customers who use their loan for Christmas and birthdays

the effectiveness of maintaining an appropriate balance between growth, credit quality and collections capacity through a difficult trading period.

Very tight controls over costs were maintained during 2009, resulting in year on year growth of just 1.7%, notwithstanding higher top line growth and the investment in field capacity. Cost control will remain a major priority in 2010 set in the context of planning assumptions that reflect no improvement in the labour market conditions, continued pressure on household incomes and relatively weak demand for credit. Accordingly, headcount in the head office support functions has recently been reduced by around 90 people. The field collections and arrears management capacity is unaffected.

Overall, the home credit business produced a satisfactory performance in 2009, reporting a pre-tax profit of £128.9m (2008: £128.8m), after taking account of the increased investment in field collections capacity, the full-year impact of early settlement rebates and the one-off impact of adverse weather conditions during the peak trading weeks in December.

Real Personal Finance

The market test of direct repayment loans under the Real Personal Finance brand operated out of 50 locations during 2009, using dedicated field managers to underwrite loans on a face-to-face basis in the customer's home.

In 2009, Real Personal Finance generated revenues of £7.9m and incurred a start-up loss of £7.7m, up from £2.7m in 2008 and higher than expected because volumes were insufficient.

Direct referrals from home credit branches or sourced from the home credit customer database have provided a good flow of leads to Real Personal Finance and contributed approximately half of revenues in 2009. The market test also assumed that around half of new business would be sourced from the wider non-standard market served by credit brokers. However, 2009 has seen the withdrawal or restructuring of the major participants in the broker channel as a result of the severe decline in the volume of business being written in the non-standard direct repayment market. This reflects the strategic withdrawal or collapse of lenders to this segment of the market. In addition, far too many of the broker introduced loan applications received by Real Personal Finance during 2009 have been from consumers carrying unacceptably high levels of external indebtedness or not exhibiting the repayment discipline with other lenders to support further lending. Accordingly, only 1% of these leads were converted in 2009. This combination of factors means there has not been a sufficient flow of applicants of an acceptable quality to support the wider market proposition at this time. Furthermore, this is unlikely to change during 2010.

Consequently, the decision has been made to focus solely on known prospects generated through the home credit branch network or sourced from the home credit customer database. The direct repayment product, to be known as Provident Direct or Greenwoods Direct, will therefore revert to being a product extension consistent with home credit's 'low and grow' approach to lending. There is no longer a requirement for the separate Real Personal Finance field sales force and associated central overhead. Accordingly, some 95 people have recently left the business and start-up losses, which amounted to £7.7m in 2009, will not continue through 2010.

In the medium term, the opportunity to add direct distribution channels into the broader non-standard market remains but will only be pursued when more stable market conditions return.

Looking ahead

There continue to be opportunities to grow the home credit business in 2010 as mainstream lenders continue to restrict the flow of credit. However, there are also risks associated with continuing high unemployment and under-employment, and the unknown effects of UK macroeconomic policy as the Government raises taxes and cuts expenditure. The issue is one of striking the right balance between growth, credit quality and collections capacity. We will continue to monitor our financial information carefully to make sure we get this balance right. We benefit from getting excellent data back very quickly from our staff and home credit agents. By the middle of each week we have a detailed picture of the previous week's performance which means we can identify trends early and change our lending and collections strategies if necessary.

We will continue to test the direct repayment loans concept and when market conditions improve we will decide how to take forward our approach to this potentially rewarding market sector. In the meantime, we are rolling out direct repayment loans as a product extension of our core home credit business consistent with our 'low and grow' approach to lending.

2010 will also see our headquarters move to new, purpose-built offices in the centre of Bradford. The new building will support the next phase in the company's development and underlines our commitment to the regeneration of the Bradford area.

Smoothing the family budget

Donna has three children – Devon, Georgia and baby Alfie – so she finds home credit loans especially useful for smoothing out the family budget. Donna most recently used a home credit loan to buy Devon a new school uniform in September.

Vanquis Bank

Michael Lenora
Managing Director, Vanquis Bank

Financial exclusion is rightly a major focus of Government and organisations promoting consumer welfare. Not having access to a credit card makes it increasingly difficult to operate in the modern world. Credit cards allow people to shop conveniently in the high street, by telephone or on the Internet, to manage emergencies, and are useful when travelling abroad. However, many people – including those with little or no credit history, those who have had credit problems in the past but are now over them, and those on lower incomes – can find themselves excluded from this valuable facility.

Divisional strategy
- Achieve full operational scale
- Reach medium-term targets
- Retain tight control on impairment

Vanquis Bank is bringing the benefits of credit cards, in a responsible way, to people who can find themselves excluded by mainstream card issuers. Credit card limits start at £250 and are significantly lower than those of mainstream lenders. A high level of contact with our customers helps them stay in control.

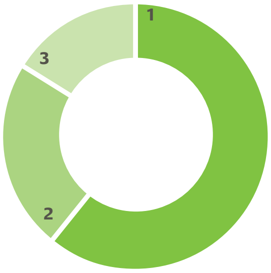
Vanquis Bank started trading in 2003. After a period of market testing, full product launch in the UK commenced in January 2005.

Vanquis Bank operates in the non-standard sector of the UK credit card market. Our customers are on average to below average incomes; typically earning between £12,000 and £25,000 per year. They use our card for the same kinds of things that mainstream card users use their cards for – such as shopping at the major supermarkets and on Internet sites.

We are different from other issuers in that our products are designed for people that most other credit card providers see as being too much of a credit risk. We are more comfortable with this market because of our long experience of home credit, and the experience and skills of Vanquis Bank's management team, a significant proportion of whom have a background in serving non-standard credit customers.

Vanquis Bank is willing to lend in this market sector but does so with the risks in mind.

We operate a 'low and grow' strategy. We are willing to take a sensible risk with people but we want to limit our exposure at the beginning of the relationship, so we set a much lower credit limit than mainstream card issuers. Around half of our accounts start with a credit limit of £250 and £1,000 is the maximum initial credit limit. Credit lines for mainstream card issuers would be much higher than this. We then look at the payment performance on the account and recheck external credit bureau data every month with a view to giving controlled increases, or indeed decreases, in credit limits when it is appropriate to do so.



Customer acquisition channels

1	Internet	61%
2	Direct mail	23%
3	Referrals from third parties	16%

426,000

Number of Vanquis Bank customers

£14.1m

Vanquis Bank profit before tax

£255.5m

Vanquis Bank year-end receivables

Two-thirds of our customers are taken on at our typical APR of 39.9%. Given the nature of our customers and products, we have higher default rates than the norm in the UK credit card market. Our interest rates reflect that risk and so our revenue yield is higher. Our default charges are in line with those of the mainstream credit card providers.

Vanquis Bank is also different from other lenders in that it maintains a high level of customer contact throughout the life of the account. For instance, during the application process, any customer taken on with an interest rate higher than 39.9% APR will have a telephone interview with one of our customer support staff before their card is authorised. If we cannot speak to the customer we will turn down the application. Our thinking is that if we cannot contact the customer at this stage, we will probably have trouble contacting them later if they experience problems. This basic, common sense approach is by no means typical with other card issuers. We also contact customers at any time they appear to be struggling to make payments. Our customers also choose to contact us much more frequently than would be typical with other card issuers.

The market

There are over 10 million people in the UK in the non-standard credit market. Within that market we think somewhere between four and five million people are suited to our credit card product. Some of those customers are already with our direct competitors and some are with mainstream credit card providers. With 426,000 customers at present, we have well below 10% of the non-standard market.

Approaching half of the new customers we take on have no other credit cards. The nature of the credit market at present means that mainstream credit card providers may not feel able to continue serving some of their customers – many of whom may have been better suited to our type of credit card in any case.

Vanquis Bank's strategy

Vanquis Bank's strategy is to bring the business up to an operational scale that will produce significant profitability. The business's new, medium-term target is to grow receivables to £450m by the end of 2012 whilst maintaining a post-tax return on equity of 30%.

Key activities in 2009

Vanquis Bank continues to perform well and made significant strides towards its growth and profitability targets in 2009.

Maintaining credit quality

In the current economic environment, with rising unemployment and under-employment, the Vanquis Bank management team has focused heavily on maintaining the quality of the receivables book. Throughout 2009, we have consistently tightened the criteria applied to underwriting applications and therefore whilst demand for a Vanquis Bank credit card remains high, we have turned down 83% of new card applications during 2009. Our primary focus in 2009 has been on lending to good quality existing customers who have already demonstrated a sound payment record and who we know well. As a result, receivables growth in 2009 has been much higher than customer growth. We have supported this approach by cancelling 21,000 inactive accounts to further reduce the exposure to future impairment risk.

Maintaining the revenue yield

We placed particular emphasis in 2009 on ensuring that both new and existing customers' cards were priced at a level that made an appropriate return for the risks being taken. This allows us to keep serving customers who now present a higher risk but at a rate that reflects that risk. These actions mean we are well positioned for the challenging trading environment in the months ahead and ensures that we can maintain a risk-adjusted margin of 30% which is consistent with achieving a post-tax return on equity of 30%.

Internet shopping

Having a Vanquis Bank credit card means Adam can choose from a wider range of products on the Internet than are available on his local high street, and he can take advantage of online discounts.

> Vanquis Bank is also different from other lenders in that it maintains a high level of customer contact.

Customer welcome call

The Chatham call centre takes 450,000 calls a month and the aim is to talk to every customer as part of the application process; we are the only credit card company to do this. These initial calls do two things. Firstly, they allow us to speak to the customer as part of the underwriting process which includes checking security details to reduce fraud. Secondly, it gives us the opportunity to see if the customer would like to buy any of our ancillary products or services on the day their account is activated. During 2009, we have continued to evolve our product offering and have introduced Identity Theft Insurance. This covers customers against the considerable costs and inconvenience of sorting out their affairs if someone steals their identity. At present, around 20% of new customers take up this option.

Customer recruitment

Customer recruitment channels continued to evolve in 2009 with 61% of customers coming from the Internet where we further increased our use of display advertising. Direct mail activity, which is still a major source of business for us, accounted for 23% of new customers.

We have card-issuing partnerships with other organisations to generate new customers. We also have a number of arrangements to consider applicants who have been declined by other credit card issuers which is another important source of business for us. Together these sources represented 16% of new customers in 2009.

Card development

For the first time, in 2009 we offered customers a choice of pictorial design on their credit card. This has proved very popular and resulted in a 15% uplift in response to our marketing offers. Also, to ensure that we do not lose customers whose financial circumstances now mean they require, and can manage, larger credit limits, we introduced a Gold Card for the small number of customers to whom we have granted a credit limit of £1,500 or more.

5.4%

Increase in Vanquis Bank customer numbers

38.8%

Increase in Vanquis Bank revenue

Results

	Year ended 31 December		
	2009 £m	2008 £m	Change %
Customer numbers ('000)	**426**	404	5.4
Average customer receivables	**231.1**	177.5	30.2
Revenue	**131.3**	94.6	38.8
Impairment	**(61.7)**	(38.2)	(61.5)
Revenue less impairment	**69.6**	56.4	23.4
Risk-adjusted margin*	**30.1%**	31.8%	
Impairment % revenue**	**47.0%**	40.4%	
Costs	**(43.3)**	(39.4)	(9.9)
Interest	**(12.2)**	(9.0)	(35.6)
Profit before tax	**14.1**	8.0	76.3

* Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.
** Impairment as a percentage of revenue for the 12 months ended 31 December.

Demand for non-standard credit cards has remained strong, with approximately one million applications being received in 2009. The acceptance criteria applied to underwriting for new customer applications was tightened further in the first half of 2009 and then maintained through the second half, resulting in an overall decline rate of 83%. The overall rate of growth in customer numbers was also constrained through the cancellation of some 21,000 inactive accounts to mitigate the contingent risk associated with undrawn credit lines. As a result, customer numbers stood at 426,000 at the year end, up by 5.4% on 2008.

As planned, the main source of growth during the year was the credit line increase programme applied to eligible customers that have established a sound payment history. The returns from this 'low and grow' approach to extending credit remain good and resulted in the growth in average customer receivables of 30.2%, significantly ahead of customer number growth.

Vanquis Bank is extremely active in managing the level of credit line utilisation and revenue yield to reflect underlying credit risk. During 2009, the average utilisation of the credit lines granted by Vanquis Bank was approaching 80% which ensures that there is a strong stream of interest income and a relatively low level of contingent undrawn exposure. This contrasts with a typical prime card which operates with lower levels of utilisation and much higher card limits, generating greater credit loss volatility in a downturn.

The levels of customer delinquency and credit losses were stable during the second half of 2009, providing evidence that credit standards are set at appropriate levels in the current economic environment. Very importantly, the business maintained its risk-adjusted margin at its target of 30% in a tough environment through careful management of the relationship between the revenue yield and credit losses for each cohort of customers. The performance of the credit line increase programme to existing customers and new account origination is very satisfactory and the increased rate of impairment in 2009 resulted from accounts written earlier in Vanquis Bank's development.

Holiday spending

Kevin used his Vanquis Bank credit card to book his summer holiday over the telephone. Taking his credit card on holiday with him also gives him the reassurance of knowing he'll be able to cover any unexpected expenses while he is abroad.

Music downloads

Emma used her Vanquis Bank credit card to treat herself to a new MP3 player. She also uses her credit card online to pay to download new albums to add to her music library.

> "I can use my credit card for much more than if I just had the cash in my purse – Internet shopping, for example."

Costs remained tightly controlled, with the business benefiting from improved scale and savings achieved through the renegotiation of key supplier contracts towards the end of 2008. Profit before tax increased by 76.3% to £14.1m (2008: £8.0m), leaving the business well positioned to achieve its target to deliver a 30% post-tax return on equity before the end of 2010.

The competitive landscape for Vanquis Bank remains favourable and its business model has performed well during the economic downturn. We expect it to grow its receivables book from its current level of £255m to approximately £450m by the end of 2012, whilst maintaining a post-tax return on equity of 30%.

Looking ahead
Our main task in 2010 is to continue to grow the business whilst maintaining a cautious approach to lending.

To grow the business we aim to establish new card-issuing partnerships and enter into new agreements to consider applicants who have been declined by other card issuers. Our partnerships have helped us to deliver continued growth in 2009 and we expect this channel to continue to grow in importance in 2010. We will also continue to place a high level of importance on maintaining the flow of credit to good quality existing customers through the credit line increase programme which has been so successful in 2009.

We will seek to develop new products in order to meet our customers' needs and therefore add yet more new income streams. And we will examine the acquisition of suitable credit card books in order to take advantage of our operational capacity headroom. This would result in the business achieving its full-scale operation sooner.

The systems we have in place provide us with good quality, timely management information which allows us to make any necessary changes to our loan book to keep the level of impairment at an acceptable level. We will continue to analyse the risk that each customer presents, at least every month, and actively amend pricing to respond to that risk.

Regulatory framework

The company is regulated by the Office of Fair Trading (OFT) and the provision of credit is regulated by the rules set out in the Consumer Credit Act 1974 as amended ('the CCA'). The main provisions of this legislation ensure that the UK consumer credit market operates in the interests of consumers in a fair, clear and competitive way.

Current regulatory framework
The CCA and its supporting regulations cover:
- advertising, canvassing and the provision of pre-contract information to customers;
- the form and content of credit agreements;
- cancellation rights and early settlement rebates;
- debt collection procedures; and
- the granting of consumer credit licences.

Equivalent legislation applies to the company's operations in the Republic of Ireland.

Vanquis Bank is also subject to CCA regulation. However, as it holds a banking licence, it is also regulated by the Financial Services Authority ('the FSA'). The FSA's regulation takes two main forms:
- regulatory capital requirements for both Vanquis Bank and the wider Provident Financial group; and
- liquidity requirements for Vanquis Bank.

Future regulatory landscape
Consumer Credit Directive implementation
The 2008 EU Directive on Consumer Credit has to be implemented in the UK by June 2010, with a transitional period for businesses to comply with the new rules by 31 January 2011. Areas where there will be changes from the current law include pre-contract information, requirements to provide adequate explanations and to assess creditworthiness, right of withdrawal, and rebates on partial early repayment. The Department for Business, Industry and Skills (BIS) has consulted on draft texts of the regulations, but these have still to be finalised. BIS is expected to publish final form regulations in March 2010.

Other regulatory initiatives
OFT High Cost Credit Review
The group is contributing to the OFT's review of the £35bn high-cost consumer credit market which it announced in July 2009. The review, which covers a broad range of lending activities of which home credit is a relatively small element, published its emerging evidence in December 2009 and is expected to conclude in spring 2010. The implementation of any policy recommendations would be for the incoming administration to consider after the General Election. The OFT has a good understanding of home credit and the sub-prime financial services sector.

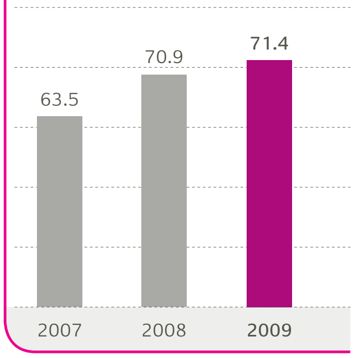
Irresponsible Lending Guidance
In July 2009 the OFT launched a consultation on draft guidance setting out the practices which appear to the OFT to involve irresponsible lending. The consultation period ran until October 2009. It was expected that the guidance would be issued by the end of January 2010. However, the OFT has recently announced that publication will be delayed until March 2010.

Credit and Store Card Regulation
BIS is currently consulting on the future regulation of credit and store cards. The Government's response will be published by 20 April 2010 and any proposals for legislative change could only be carried out after the General Election and would then be subject to further consultation. The measures being debated centre on transparency and putting the customer in control. The discussions include a ban or restrictions on unsolicited credit card line increases. Vanquis Bank is working closely with the UK Cards Association (formerly APACS) which continues to have a constructive dialogue with BIS officials with the aim of finding a workable solution to address BIS concerns.

Financial review

Andrew Fisher
Finance Director

Basic EPS before exceptional costs (pence)



Group profit before tax

Group profit before tax and exceptional costs was £130.1m in 2009, up £1.3m on 2008.

	2009 £m	2008 £m	Change £m
Home credit	**128.9**	128.8	0.1
Real Personal Finance	**(7.7)**	(2.7)	(5.0)
Consumer Credit Division	**121.2**	126.1	(4.9)
Vanquis Bank	**14.1**	8.0	6.1
Yes Car Credit	**0.2**	(2.9)	3.1
Central:			
– costs	**(7.0)**	(5.5)	(1.5)
– interest receivable	**1.6**	3.1	(1.5)
Total central	**(5.4)**	(2.4)	(3.0)
Profit before tax and exceptional items	**130.1**	128.8	1.3

After deducting an exceptional finance cost of £4.4m in 2009, group profit before tax was £125.7m (2008: £128.8m).

A review of the performance of the Consumer Credit Division and Vanquis Bank can be found on pages 23 and 29 respectively.

Yes Car Credit

The collect-out of the Yes Car Credit receivables book was successfully completed in October 2009 and the collections operation has now been closed. The business produced a small profit before tax of £0.2m in its last year of operation (2008: loss of £2.9m).

Central costs

Central costs of £7.0m in 2009 (2008: £5.5m) were higher than in 2008 as a result of an increased investment in the group's community programme and higher share-based payment charges in respect of the group's various employee share schemes.

Central interest receivable was £1.6m in the year (2008: £3.1m), reflecting the surplus capital currently held by the group.

Exceptional finance cost

On 23 October 2009, the group successfully issued £250m of 10-year senior public bonds carrying a coupon of 8.0%. At the same time, the group repurchased £94m of its £100m subordinated loan notes at 97.5p in the £ following a tender offer. The net new funds of £156m were used to make repayments on the group's revolving syndicated bank facilities.

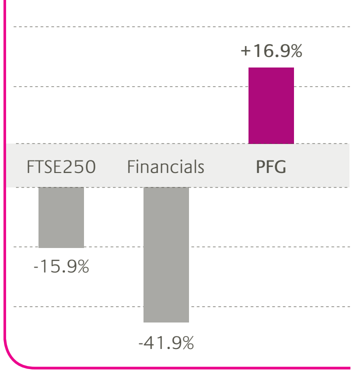
A net exceptional finance cost of £4.4m arose as a result of this refinancing, comprising two elements:

- The group routinely uses interest rate swaps to hedge the interest rate exposure on its floating rate borrowings. The interest rate swaps are designated and effective as cash flow hedges on inception in accordance with IAS 39, 'Financial instruments: Recognition and measurement'. The repayments made on the group's revolving bank facilities as part of the refinancing has meant that certain of the group's interest rate swaps became ineffective in IAS 39 terms. Accordingly, an amount of £6.8m, representing the fair value of the interest rate swaps that were recorded as a deduction from equity, has now been transferred as a charge to the income statement in 2009.
- The 2.5% discount on the repurchased subordinated loan notes, amounting to £2.4m, has been credited to the income statement in 2009 following the elimination of the existing liability and its replacement with a new debt instrument on substantially different terms.

Taxation

The effective tax rate for the year on profit before the exceptional finance cost was 28.0% (2008: 28.5%), in line with the UK corporation tax rate. The future tax rate is expected to be in line with the statutory UK corporation tax rate.

Total Shareholder Return



* Since demerger on 16th July 2007

Equity to receivables (%)

CCD and Vanquis Bank receivables (£m)

Earnings per share

Basic earnings per share for the year were 67.5p (2008: 70.9p).

In order to provide a more comparable view of the performance of the group's ongoing operations, the directors have elected to show an adjusted earnings per share figure excluding the after tax impact of the exceptional finance cost in 2009. Adjusted basic earnings per share on this basis amounted to 71.4p, 0.7% higher than 2008. Dividends were covered 1.1 times on this basis (2008: 1.1 times).

Total Shareholder Return (TSR)

TSR is an important measure of performance for the group's shareholders as it combines the increase in the value of the group's shares with any dividend returns made to shareholders. This measure also forms one of the performance conditions within the Long-Term Incentive Scheme (LTIS) for directors and senior management.

Since the demerger in July 2007, the group has generated a TSR of 16.9%, significantly outperforming both the Financials sector and the FTSE 250.

Dividends

The directors have recommended a full year dividend per share of 38.1p (2008: 38.1p). Total dividends per share, after taking account of the interim dividend per share of 25.4p (2008: 25.4p), amount to 63.5p per share (2008: 63.5p). Based on the year end share price, this represents a dividend yield of 6.8% (2008: 7.4%).

Balance sheet

The group's summary balance sheet is set out below:

	2009 £m	2008 £m	Change £m
Receivables:			
Consumer Credit Division	**883.8**	852.1	31.7
Vanquis Bank	**255.5**	205.4	50.1
Yes Car Credit	**–**	5.8	(5.8)
Total receivables	**1,139.3**	1,063.3	76.0
Pension asset	**19.9**	50.9	(31.0)
Borrowings*	**(883.4)**	(803.9)	(79.5)
Other net liabilities	**(7.4)**	(32.4)	25.0
Net assets	**268.4**	277.9	(9.5)

* The fair value of derivative financial instruments which are used to hedge the foreign exchange rate risk on the group's US private placement loan notes has been excluded from borrowings to state borrowings at their hedged exchange rate. In 2009, this reduces borrowings by £6.9m (2008: reduced borrowings by £24.6m) with a corresponding movement in other net liabilities.

The group has a target ordinary shareholders' capital to receivables ratio of 15%.

The group's equity to receivables ratio, calculated to exclude the group's pension asset net of deferred tax, the fair value of derivative financial instruments held in the hedging reserve and after taking account of the proposed final dividend, was 18.9% at the year end (2008: 19.1%). After taking into account operational seasonality and the timing of dividend payments, this implies that the group holds surplus capital of some £50m (2008: £55m). In view of the high dividend payout ratio, the surplus will be retained to fund further growth opportunities and provide a sensible degree of strategic flexibility.

Receivables

Receivables ended the year at £1,139.3m (2008: £1,063.3m), up by £76.0m compared with 2008. Receivables in the Consumer Credit Division increased by £31.7m (3.7%) from £852.1m to £883.8m, primarily reflecting the growth in customer numbers, which are up by 5.3% on 2008. At Vanquis Bank, growth in customer numbers of 5.4% together with credit line increases to good quality existing customers led to a £50.1m (24.4%) growth in receivables from £205.4m to £255.5m. The Yes Car Credit receivables book was fully collected-out during 2009.

Pension asset

The group operates a defined benefit pension scheme. The scheme has been substantially closed to new employees since 1 January 2003. New employees joining the group after this date are invited to join a stakeholder pension plan into which the company typically contributes between 5.1% and 10.6% of members' pensionable earnings, provided the employee contributes, through a salary sacrifice arrangement, a minimum of between 3.0% and 8.0%.

The group's defined benefit pension asset stood at £19.9m at the end of 2009, compared with £50.9m at the end of 2008. The major movements can be analysed as follows:

	2009 £m	2008 £m
Pension asset as at 1 January	**50.9**	61.5
(Charge)/credit to the income statement	**(2.7)**	1.2
Employer contributions	**8.4**	5.3
Actuarial loss	**(37.3)**	(17.1)
Section 75 pension contribution	**0.6**	–
Pension asset as at 31 December	**19.9**	50.9

The key assumptions used in determining the pension asset were as follows:

	2009	2008
Discount rate	**5.6%**	6.3%
Inflation	**3.6%**	2.9%
Mortality assumptions:		
- Male retiring at 65	**23 yrs**	22 yrs
- Female retiring at 65	**25 yrs**	25 yrs

The actuarial loss during 2009 primarily reflects: (i) a decrease in corporate bond yields which are used to discount the value of the scheme liabilities, which reduced from 6.3% at the end of 2008 to 5.6% at 31 December 2009; and (ii) an increase in the inflation rate used to predict inflationary increases in pensions from 2.9% to 3.6%. The scheme's investment strategy is to maintain a balance of assets between equities and bonds in order to reduce the risk of volatility in investment returns. The return on scheme assets throughout 2009 was approximately 13%.

The group is now using the S1PA standard tables, together with the medium cohort improvement factors for projecting mortality. These base calculations are adjusted to reflect: (i) lower life expectancies of scheme members based on a postcode analysis; and (ii) an annual minimum improvement factor of 1.0%. In more simple terms it is now assumed that members who retire at age 65 will live on average for a further 23 years if they are male (2008: 22 years) and for a further 25 years (2008: 25 years) if they are female. Further details are set out in note 18 to the financial statements.

Borrowings

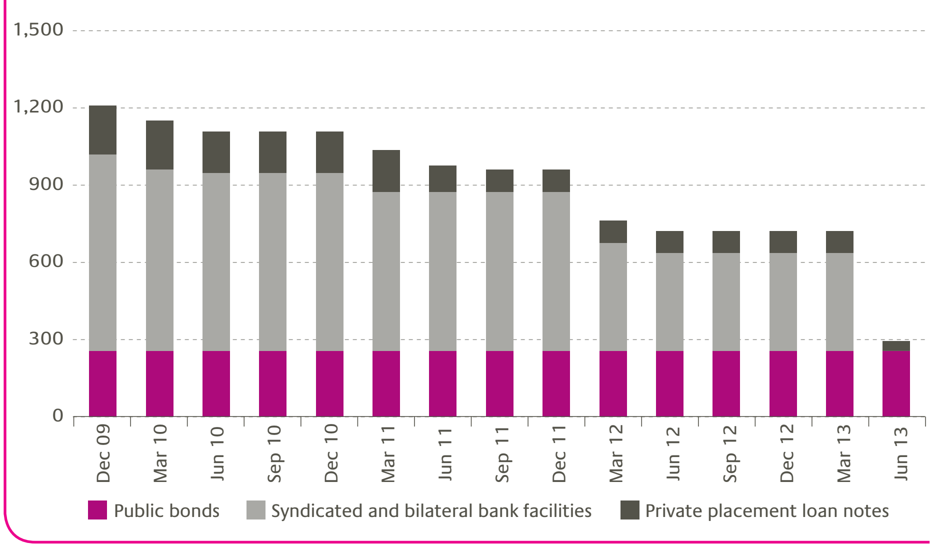
Group borrowings at the end of 2009 were £890.3m compared with £828.5m at the end of 2008. These borrowings are stated using the year end exchange rate to translate the group's US private placement loan notes rather than the rate hedged at the time of issue by cross currency swaps. After adjusting borrowings to reflect the hedged rate of exchange on the group's US private placement loan notes, borrowings were £883.4m at the end of 2009 compared with £803.9m at the end of 2008. Borrowings have increased during the year in line with the increase in receivables in both the Consumer Credit Division and Vanquis Bank.

The group borrows mainly to provide loans to customers. The seasonal pattern of lending results in peak funding requirements in December each year. The group's main sources of funding are committed term and revolving syndicated and bilateral bank facilities, senior public bonds and US private placement loan notes.

On 13 February 2009, the group secured a 12-month extension to its three-year syndicated bank facility. Of the £270.7m due to expire on 9 March 2010, £213.2m was extended to 9 March 2011.

As part of the group's strategy to diversify its funding sources, the group successfully issued its first senior public bonds amounting to £250m on 23 October 2009. The bonds are repayable in 2019 and carry a coupon of 8.0%.

Committed borrowing facilities 2009*



* Adjusted to take account of the extension of syndicated facilities which took place on 26 February 2010.

At the same time as the issue of the senior public bonds, the group repurchased £94m of the £100m subordinated loan notes prior to their call date on 15 June 2010 at a price of 97.5p in the £ following a tender offer. The group no longer required this lower Tier 2 regulatory capital following confirmation of its Individual Capital Guidance (ICG) by the Financial Services Authority (FSA).

At the end of 2009, the group had available borrowing facilities of £1,240.8m (2008: £1,102.5m), almost all of which were committed facilities. These facilities provided committed headroom of £331.0m as at 31 December 2009 (2008: £251.2m) and the average period to maturity was 3.5 years (2008: 3.0 years).

On 26 February 2010, the group secured an extension to its syndicated bank facilities due to expire on 9 March 2011 and 9 March 2012 by means of forward-starting facilities. Of the £213.2m due to expire on 9 March 2011, £135.7m has been extended to 9 May 2013 and £4.8m has been extended to 9 March 2012, and of the £436.8m due to expire on 9 March 2012, £243.8m has been extended to 9 May 2013. Including these extensions, the group's average period to maturity on committed facilities is now 4.0 years. As part of the extension, the margin on the group's syndicated bank facilities was adjusted and the gearing covenant rebased from 6.0 times to 5.0 times to reflect current market conditions.

The group will seek to continue diversifying its funding sources throughout 2010. In addition, Vanquis Bank holds a banking licence and has the potential to take retail deposits.

In September 2009, Fitch Ratings reaffirmed the rating of the group's senior long-term debt at BBB+ with a stable outlook. The senior public bonds issued in October 2009 are also rated BBB+ with a stable outlook.

The movement in borrowings during the year is as follows:

	2009 £m	2008 £m
Opening borrowings[1]	**803.9**	670.9
Profit before tax[2]	**(125.7)**	(128.8)
Increase in receivables	**76.0**	137.9
Tax payments	**28.4**	29.7
Dividends	**84.1**	83.4
Net capital expenditure	**11.8**	13.9
Other[3]	**4.9**	(3.1)
Closing borrowings[1]	**883.4**	803.9

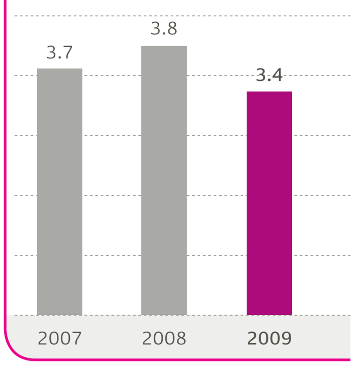
1 Borrowings have been adjusted to reflect the hedged rate of exchange on the group's US private placement loan notes.
2 Stated after the exceptional finance cost of £4.4m in 2009.
3 Other comprises other working capital movements, purchase of own shares and proceeds from the issue of share options.

Interest costs, prior to the exceptional finance cost, in 2009 were £53.8m, compared with £45.7m in 2008. The increase primarily reflects the increase in borrowings to support the growth in receivables in the year and an increase in the group's average cost of borrowing from 6.5% in 2008 to 7.0% in 2009. The increase in the average cost of funding principally reflects the higher borrowing margin on bank borrowings following the extension of facilities in February 2009, together with the issue of the 10-year £250m 8.0% senior public bonds in October 2009. The group aims to hedge the interest cost on a high proportion of its borrowings over the following 18 months. The group's estimated average cost of borrowings in 2010 is expected to be approximately 8.0%.

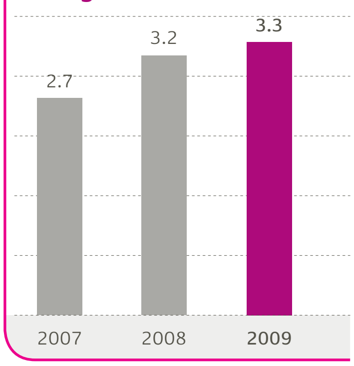
Interest payable was covered 3.4 times by profit before interest, tax and exceptional costs (2008: 3.8 times) compared with the relevant borrowings covenant of 2.0 times.

The group's gearing (calculated as the ratio of the group's borrowings to equity after excluding the pension scheme asset and the fair value of derivative financial instruments both stated net of deferred tax) stood at 3.3 times at 31 December 2009 (2008: 3.2 times), compared with the relevant borrowings covenant applied to 2009 of 6.0 times and the rebased covenant of 5.0 times which will be applied to 2010 onwards. The group has continued to comply with all of its borrowing covenants.

Interest cover



Gearing



Equity

The group's equity has reduced during the year from £277.9m at the end of 2008 to £268.4m at the end of 2009. The movements are set out below:

	2009 £m	2008 £m
Opening equity	**277.9**	295.9
Profit after tax	**88.6**	92.1
Actuarial loss, net of deferred tax	**(26.9)**	(12.3)
Issue of shares for share schemes	**8.4**	2.0
Dividends paid	**(84.1)**	(83.4)
Movement in hedging reserve	**(0.6)**	(12.4)
Purchase of treasury shares	**(0.9)**	(8.7)
Share-based payment charge	**6.1**	4.7
Other	**(0.1)**	–
Closing equity	**268.4**	277.9

Profit after tax and the exceptional finance cost contributed £88.6m (2008: £92.1m) to equity in the year, while the actuarial loss on the group's pension scheme, net of tax, reduced the group's equity by £26.9m (2008: £12.3m).

Dividends paid, comprising payment of the 2008 final dividend and the 2009 interim dividend, amounted to £84.1m (2008: £83.4m).

The movement in the hedging reserve of £0.6m (2008: £12.4m), net of deferred tax, reflects the change in the fair value during the year of derivative financial instruments, predominantly interest rate swaps, which are used for hedging purposes. This treatment is in accordance with IAS 39. This reduction in equity will reverse in future periods as the derivative financial instruments mature.

The purchase of own shares of £0.9m (2008: £8.7m) represents the purchase of Provident Financial plc shares which are granted under the group's share schemes. IFRS requires the cost of these shares to be deducted from equity.

The increase in the share-based payment reserve of £6.1m (2008: £4.7m) reflects the charge made to the income statement in the year in respect of the group's various share schemes.

The group calculates return on equity (ROE) as profit after tax (prior to the impact of exceptional costs) divided by average equity. Average equity is stated after deducting the group's pension asset and the fair value of derivative financial instruments, both net of deferred tax, and after deducting the proposed final dividend.

The group continued to generate a strong ROE in 2009 of 45%, marginally reduced from 46% in 2008 following the increased loss from Real Personal Finance.

Capital generated

The Consumer Credit Division is a highly capital generative business which allows the group to invest in the growth in Vanquis Bank and continue to maintain a high dividend payout. The table below shows the capital generated by the group's businesses after retaining the extra capital needed to support receivables growth in the business. This is the amount of capital available to pay dividends.

	2009 £m	2008 £m
Consumer Credit Division	**69.1**	72.0
Vanquis Bank	**7.6**	(1.8)
Yes Car Credit	**(0.8)**	0.8
Central	**(16.5)**	(0.6)
Net surplus capital before dividends	**59.4**	70.4

Capital generated is calculated as operating cash flows less net capital expenditure and tax paid after assuming that 85% of the growth in customer receivables is funded with debt.

The Consumer Credit Division generated £69.1m of capital in 2009 compared with £72.0m in 2008 and continues to be highly capital generative. The reduction of £2.9m in the year primarily reflects the increased loss from Real Personal Finance.

Vanquis Bank generated £7.6m of capital during 2009 (2008: absorbed capital of £1.8m) and the business is now generating sufficient profits to fund the capital required to grow its receivables book.

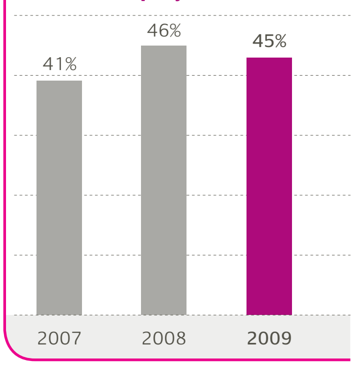
Yes Car Credit absorbed capital of £0.8m in 2009 (2008: generated capital of £0.8m) following full collect-out of the receivables book and closure of the collections operation in the year. Central costs absorbed £16.5m of capital in 2009 compared with £0.6m in 2008.

Overall, the group generated £59.4m of capital in the year (2008: £70.4m) which compares with the cost of the full-year dividend in respect of 2009 of £84.7m (2008: £84.0m). The shortfall was in line with internal plans and has been funded by using part of the group's surplus capital.

Accounting policies

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The group's accounting policies are chosen by the directors to ensure that the financial statements

Return on equity



present a true and fair view. All of the group's accounting policies are compliant with the requirements of IFRS, interpretations issued by the International Financial Reporting Interpretations Committee and UK company law. The continued appropriateness of the accounting policies, and the methods of applying those policies in practice, is reviewed at least annually. The principal accounting policies, which are consistent with the prior year other than in respect of the new presentational requirements of IAS 1 (revised), 'Presentation of financial statements' and IFRS 8, 'Operating segments', are set out on pages 81 to 87.

Treasury policy and financial risk management

The group is subject to a variety of financial risks including liquidity risk, interest rate risk, credit risk and, to a lesser extent, foreign exchange rate risk. The treasury policies of the group, which are approved annually by the board, are designed to reduce the group's exposure to these risks through securing appropriate funding, careful monitoring of liquidity and ensuring that effective hedging is in place.

Our treasury policies ensure that the group's borrowings are sufficient to meet business objectives; are sourced from high quality counterparties; are limited to specific instruments; the exposure to any one counterparty or type of instrument is controlled; and the group's exposure to interest rate and foreign exchange rate movements is maintained within set limits. The treasury function periodically enters into derivative transactions – principally interest rate swaps, cross-currency swaps and forward foreign exchange rate contracts. The purpose of these transactions is to manage the interest rate and foreign exchange rate risks arising from the group's underlying business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options.

The group's central treasury function manages the day-to-day treasury operations and application of the treasury policies for all of our businesses. The board delegates certain responsibilities to the treasury committee. The treasury committee, which is chaired by the Finance Director, is empowered to take decisions within that delegated authority. Treasury activities and compliance with treasury policies are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external.

Regulatory capital

As Vanquis Bank holds a banking licence it is regulated by the FSA. In its supervisory role, the FSA sets requirements relating to capital adequacy, liquidity management and large exposures.

The Consumer Credit Division operates under a number of consumer credit licences granted by the Office of Fair Trading but is not regulated by the FSA. However, the Provident Financial group, incorporating both the Consumer Credit Division and Vanquis Bank, is the subject of consolidated supervision by the FSA by virtue of Provident Financial plc being the parent company of Vanquis Bank. The FSA set requirements for the consolidated group in respect of capital adequacy and large exposures but not in respect of liquidity.

The group adopted the Capital Requirements Directive (CRD) on 1 January 2008. The CRD implements the supervisory framework set out in the Revised BASEL Accord (BASEL II). The CRD framework revised the calculation of regulatory capital required to be held by firms and places more emphasis on the risks firms face and the risk management processes that they have in place.

The CRD requires the group and Vanquis Bank to conduct an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis. The key output of the ICAAP is a document which considers the risks faced by the group and the adequacy of internal controls in place, ascertains the level of regulatory capital that should be held to cover these risks and undertakes stress testing on the capital requirement. The group and Vanquis Bank have operated to interim capital guidance set by the FSA since 1 January 2008 whilst the group's ICAAP was being considered by the FSA. In September 2009, the FSA set the final ICG for the group and Vanquis Bank, both of which are not materially different from the interim capital guidance set by the FSA.

The ICG is expressed as a percentage of the minimum Pillar I requirement for credit risk and operational risk calculated using predetermined formulas. As at 31 December 2009, the regulatory capital held as a percentage of the minimum Pillar I requirement was 293% for the supervised group (2008: 419%) and 259% for Vanquis Bank (2008: 270%). These were comfortably in excess of the ICG set by the FSA. The reduction in the supervised group ratio from 2008 is primarily as a result of the repurchase of £94.0m of the group's subordinated loan notes which qualified as lower tier 2 regulatory capital.

The CRD requires the group to make annual Pillar III disclosures which set out information on the group's regulatory capital, risk exposures and risk management processes. A considerable amount of the information required by the Pillar III disclosures is included within the 2009 Annual Report & Financial Statements. However, the group's full Pillar III disclosures can be separately found on the group's website, www.providentfinancial.com.

During 2009, the FSA has introduced a new liquidity regime in response to the credit crisis and liquidity concerns in the banking sector. The new regime is not applicable to the group as a whole but does impact Vanquis Bank on a solo basis. The key requirements of the new regime include increased systems and controls requirements, more granular and regular reporting to the FSA and the requirement to hold a liquid assets buffer in the form of government bonds or money-market deposits. The systems and controls elements of the new regime were implemented by Vanquis Bank in 2009 whilst the other aspects of the regime will be introduced during 2010 in line with the FSA's implementation timetable.

Going concern

The directors have reviewed the group's budgets, plans and cash flow forecasts for the year to 31 December 2010 and outline projections for the four subsequent years. Based on this review, they have a reasonable expectation that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Risks

The group has a rigorous risk management framework. This is designed to identify the risks that could adversely impact the delivery of the group's strategic aims and to ensure that adequate controls and procedures are in place to mitigate the risks.

The group's risks, together with the controls and procedures in place to mitigate the risks, are as follows:

Risk	Definition	Controls and procedures
Credit risk	The risk that the group will suffer loss in the event of a default by a customer or bank counterparty. A default occurs when the customer or bank fails to honour repayments as they fall due. Customer defaults in the non-standard market are typically higher than in more mainstream markets. In addition, the current economic climate has led to increased impairment levels in the credit market generally.	Customers — CCD and Vanquis Bank credit committees set policy and review credit performance. — CCD – home credit loans are underwritten face-to-face by agents in the customers' home; agents maintain weekly contact with the customer and stay up to date with their circumstances; agents' commission is based on collections not credit issued; application and behavioural scoring is used to assist agents' underwriting; home credit issues short-term, small sum loans, with average issue values of between £300 and £500 typically repayable over one year; direct repayment loans are underwritten in the home with the use of external bureau data. — Vanquis Bank – uses highly bespoke underwriting including full external bureau data; a telephone interview is conducted prior to issuing credit; initial credit lines are low (typically £250); customers are re-scored monthly; an intensive call centre-based operation focuses on collections; underwriting and credit line increases have been tightened progressively since the middle of 2007 in light of economic conditions. — Comprehensive daily, weekly and monthly reporting on KPIs. Bank counterparties — A board approved policy is in place for bank counterparties. — Transactions are only undertaken with high quality counterparties. — Exposures to counterparties are linked to their credit rating and regulatory capital requirements. See pages 88 to 89 for more commentary on credit risk.
Regulatory risk	The risk of loss arising from a breach of existing regulation or regulatory changes in the markets within which the group operates. The current volatile economic environment has resulted in greater focus on regulation, with an increase in the level of scrutiny placed upon participants in the broader banking and consumer lending market.	— A central in-house legal team is in place which monitors legislative changes and supports divisional compliance functions. — Expert third party legal advice is taken where necessary. — Divisional compliance functions are in place which manage compliance and report to divisional boards. — There is constructive dialogue with regulators. — Full and active participation in all relevant regulatory review and consultation processes in the UK and EU.
Liquidity risk	The risk that the group will have insufficient liquid resources available to fulfil its operational plans and/or meet its financial obligations as they fall due. Credit markets have been significantly disrupted since the second half of 2008 making it more challenging for companies to obtain funding.	— A board approved policy is in place to maintain committed borrowing facilities which provide funding headroom for at least the following 12 months. — Liquidity is managed by an experienced central treasury department. — There is daily monitoring of actual and expected cash flows. — The group 'borrows long and lends short' meaning that the duration of the receivables book is significantly less than the average duration of the group's funding. — £250m 10-year senior public bonds issued in October 2009 and syndicated bank facilities extended in February 2010. — Headroom on committed facilities of £331.0m as at 31 December 2009. See page 89 for more commentary on liquidity risk.
Reputational risk	The risk that an event or circumstance could adversely impact on the group's reputation including adverse publicity from the activities of legislators, pressure groups and the media.	— Dedicated teams and established procedures are in place for dealing with media issues. — A pro-active communication programme is targeted at key opinion formers and is co-ordinated centrally. — Regular customer satisfaction surveys are undertaken. — The group invests in a centrally co-ordinated community programme.
Pension risk	The risk that there may be insufficient assets to meet the liabilities of the group's defined benefit pension scheme.	— The group's pension asset stands at £19.9m as at 31 December 2009. — The defined benefit pension scheme was substantially closed to new members from 1 January 2003. — Cash balance arrangements are now in place within the defined benefit pension scheme to reduce the exposure to improving mortality rates. — The pension investment strategy ensures that there is an appropriate balance of assets between equities and bonds. — New employees are invited to join the group's stakeholder pension scheme which carries no investment or mortality risk for the group.

Risk	Definition	Controls and procedures
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems.	IT systems — IT is managed in CCD and Vanquis Bank by experienced teams. — There are established disaster recovery procedures which are tested on a regular basis. — Specialist project teams are used to manage change programmes. — Insurance policies are in place to cover eventualities such as business interruption, loss of IT systems and crime. Health and safety — Significant time and expenditure is invested in ensuring staff are safety conscious. — Assistance is given to agents to ensure that they are safety aware. — Induction sessions and regular updates are provided on safety awareness. — Safety awareness weeks form part of the annual calendar. Fraud — Specialist departments are in place in each business to prevent, detect and monitor fraud. — There is regular reporting to divisional boards and to the group audit committee. Key person risk — Effective recruitment, retention and succession planning strategies are in place. — The group has competitive remuneration and incentive structures. — Effective training, development and communication is in place throughout the group.
Business risk	The risk of loss arising from the failure of the group's strategy or management actions over the planning horizon.	— A clear group strategy is in place. — A board strategy and planning conference is held annually. — A dedicated central resource is in place to develop corporate strategy. — New products and processes are thoroughly tested prior to roll-out. — There is comprehensive monitoring of competitor products, pricing and strategy. — Robust change programme functions oversee business change. — The group has comprehensive monthly management accounts, a monthly rolling forecast and a bi-annual budgeting process.
Tax risk	The risk of loss arising from changes in tax legislation or practice.	— A board approved tax strategy is in place. — An experienced in-house tax team deals with all tax matters. — Advice is sought from external advisers on key corporate and indirect tax matters, including the self-employed status of agents. — Material transactions are agreed with the relevant authorities in advance where appropriate.
Interest rate risk	The risk that a change in external interest rates leads to an increase in the group's cost of borrowing.	— There is a board approved policy on hedging interest rate risk. — The group uses derivative financial instruments to hedge the risk of movements in interest rates. — Exposures are monitored by an experienced central treasury department. — The interest cost represents a relatively small part of the group's cost base. — See page 90 for more commentary on interest rate risk.
Foreign exchange rate risk	The risk that a change in foreign currency exchange rates leads to a reduction in profits or equity.	— Foreign exchange exposures are limited to certain borrowings denominated in US dollars and euros and CCD's Republic of Ireland operations. — There is a board approved policy on hedging foreign exchange rate risk. — Exposures are monitored by an experienced central treasury department. — The group uses derivative financial instruments to hedge the risk of movements in foreign exchange rates. See page 90 for more commentary on foreign exchange rate risk.
Concentration risk	The risk arising from the lack of diversification in the group's business either geographical, demographic or by product.	— The group's customer base of over two million is well dispersed across the UK and Ireland. — New product development continues to be undertaken outside the core home credit business.
Market risk	The risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.	— The group's policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Corporate responsibility

In a year which has seen the wider financial services sector experience continued turbulence and uncertainty, corporate responsibility (CR) remains a fundamental part of our business strategy and will play a key role in our long-term success. By ensuring that we continue to manage material, environmental and societal impacts, we will be able to demonstrate to our stakeholders that we are a responsible, well managed provider of credit operating in a sustainable manner.

Peter Crook
Chief Executive

Rob Lawson
Corporate Responsibility Manager

Our approach to CR management has developed over the past nine years and is at the heart of our mission to be the leading non-standard lender in the UK, acting responsibly in all our relationships and playing a positive role in the communities we serve.

Through our CR programme we are able to manage effectively and understand the social, environmental and economic impacts of our operations, as well as maintain our relationships with the people that matter to the business – whether they are customers, employees, suppliers, local communities or investors.

By proactively managing our CR impacts, we are able to differentiate ourselves from other companies in our sector, secure business advantage, deliver long-term value to our shareholders, and contribute to the sustainability of our businesses.

Our CR strategy

We recognise that by conducting our business in a sustainable and socially responsible manner, we can grow the long-term value of the company. To ensure that we focus on the social, environmental and economic issues that are material to our activities, our approach to CR management is guided by the feedback we receive from both internal and external stakeholders. We do this by making regular use of employee opinion surveys, focus groups and customer satisfaction surveys, and by convening annual roundtable sessions with representatives from key stakeholder groups.

This approach has enabled us to develop a CR management strategy which is organised around six key themes: governance and management, our customers, our people, our supply chain, community involvement, and the environment. Through the ongoing management of our CR programme we are able to work towards our mission to be the leading non-standard lender in the UK and Ireland, while ensuring that we continue to deliver high levels of customer satisfaction, reduce the impact that our activities have on the environment, act responsibly in all our relationships, and play a positive role in

> Throughout 2009, we continued to be represented on the main global sustainability indices.

the communities we serve. Our CR programme in turn underlines the importance of our company values of acting in a fair manner, conducting our business dealings responsibly, delivering accessible products to our customers, operating in a straightforward way and being progressive.

Embedding CR within our business
Comprehensive governance and management structures have been put in place across the group to ensure that CR remains a core part of our strategy. The Chief Executive has responsibility for our overall, group-wide CR programme, and chairs the group's management committee which provides oversight to the CR programme on behalf of the Provident Financial board. In addition to the Chief Executive, this committee comprises the Finance Director and Managing Director of the Consumer Credit Division, the Managing Director of Vanquis Bank, the Directors of Corporate Affairs and Corporate Strategy, and the Company Secretary and General Counsel.

During 2009, the group's management committee made significant contributions to the way that we manage our CR performance. This included approving the newest strand of our community involvement programme to ensure that employees from across our business initiate projects within the many communities we serve throughout the UK and Ireland.

In addition to the management committee, there are three key working groups which have been established to ensure that CR is a core part of our business and to address the social, environmental and economic issues that are material to our activities. The working groups, which feed into the board either directly, or via the management committee, are set out in the table below.

Scrutiny of our CR performance
Throughout 2009, we continued to be represented on the main global sustainability indices and responded to requests from investors and analysts to share information on our CR programme. This is an important aspect of our approach to CR management as it provides investors and other stakeholders with demonstrable evidence of our commitment to operating our business in a responsible manner, and how we manage the social, environmental and ethical impacts that are material to our operations.

Working group	Chair	Membership	Role
Responsible lending group	Chris Gillespie, Managing Director of the Consumer Credit Division and Provident Financial Executive Director.	Representatives from the Consumer Credit Division, Vanquis Bank and Provident Financial corporate office.	• Establish a framework to manage the issue of responsible lending for both the Consumer Credit Division and Vanquis Bank. • Ensure that the Consumer Credit Division and Vanquis Bank operate at, or above, the standards expected of financial services organisations in relation to the responsible lending agenda.
Corporate responsibility working groups	David Stevenson, Head of Communications, Provident Financial.	Groups have been established within both the Consumer Credit Division and Vanquis Bank and include representation from HR, procurement and communications functions.	• Contribute to the strategic direction of Provident Financial's CR programme, in particular ensuring that elements of our approach to HR and supply chain management are factored into the group-wide CR programme. • Generate CR management performance information to include in Provident Financial's CR Reports and submissions to sustainability indices. • Provide support to help co-ordinate the delivery of Provident Financial's CR management programme.
Environmental working groups	Rob Lawson, CR Manager, Provident Financial.	Groups have been established within both the Consumer Credit Division and Vanquis Bank and include representation from facilities management, HR and IT functions.	• Contribute to the strategic direction of Provident Financial's environmental management programme. • Generate environmental management performance information to include in CR reports and submissions to sustainability indices. • Provide support to help co-ordinate the delivery of Provident Financial's environmental management programme.

CR working group

During 2009, the CR working group discussed a range of measures that could be implemented across our business to reinforce our commitment to improve workplace diversity.

> There are three working groups which have been established to ensure that CR is a core part of our business.

130

Number of years of experience serving the non-standard credit market

1880

Year home credit business established

During the year we were included in the FTSE4Good index, the Dow Jones Sustainability indices for the World (DJSI World) and Europe (DJSI STOXX) and the Ethibel Pioneer and Ethibel Excellence Investment Registers. We continued to make annual submissions to the Business in the Community Corporate Responsibility Index and the Carbon Disclosure Project survey. We were also awarded a 'Prime' CR rating by Oekom research. This recognises our status as a leading organisation within our sector, and our success in meeting Oekom's sustainability criteria, which cover a range of social, ethical and environmental issues. The rating means that our shares will qualify for ecologically and socially based investment by Oekom's clients.

CR reporting

In addition to including information on our CR programme in our Annual Report, we remain committed to producing an annual CR report. This report enables us to provide our stakeholders with a written account of our CR performance and how it relates to our values, overall business strategy and stated objectives and targets. It also enables us to subject the management systems, processes and procedures which underpin our CR report to a process of independent assurance. During 2009, the commentary and data in our 2008 CR report was independently assured by the specialist management consultancy Corporate Citizenship. In undertaking this work, Corporate Citizenship evaluated the nature and extent of our report's adherence to the AccountAbility 1000 assurance standard principles of inclusivity, materiality and responsiveness. The report was also checked to determine whether it was aligned with the Global Reporting Initiative's G3 sustainability reporting guidelines.

Further information on our CR reports can be found at www.providentfinancial.com

Responsible delivery of products and services

At the centre of our business and our CR programme are our customers; in particular our commitment to lend responsibly and provide products which meet their needs. In practice this means providing straightforward and clear information on our products and charges, and not lending more than our customers can afford. This allows them to make informed choices and ensure that they are not overstretched with their repayments.

With 130 years of experience in the non-standard credit market, we have acquired a huge amount of knowledge about our customers. This has enabled us to develop home-collected credit and credit card products which are tailored to meet the needs of our customers, along with high levels of personal customer service and affordable repayments.

Responsible lending

The concept of responsible lending is built into the products and services we offer our customers. To make sure we are lending responsibly, it is imperative that we help our employees and the self-employed agent force to make the right lending

> “We know that those on modest incomes have particular needs and our approach to collecting repayments addresses those needs.”

Accreditations

decisions. The business has continued to refine and use its credit scoring systems to help decide whether to accept new customers or extend further credit to existing ones. There are two systems we use in home credit to do this: the System Enhanced Lending system and the Single View of Customer system.

The System Enhanced Lending (SEL) system is used to assess the loan applications made by existing customers on the basis of their previous payment history. Following this assessment, a credit score is assigned to the customer, which is in turn used to inform the lending decision. If an unacceptable credit score or ‘do not issue’ message is generated as a result of the assessment, the customer will not be offered an additional loan. The SEL system enables us to issue loans to existing or previous customers of the right size and at the right time. The SEL status for each customer is updated each week whether an application is made or not. This information is available to agents to assist them in dealing with customer requests. As well as filtering out higher credit risks, the system can also help agents to spot good payers earlier in their relationship, providing opportunities to offer more credit sooner, when that is appropriate for the customer.

The Single View of Customer (SVC) system is applied to customers that come to us directly, via our website or contact centre, or are introduced to us by agents. SVC is used to create a risk profile of new customers using a bespoke risk index scorecard. The system is used to inform lending decisions and ensures we lend customers the right amount at the right time.

In addition, all new Vanquis Bank customers undergo a credit bureau check prior to being taken on. Bureau data is then used to inform our decisions whether to accept or reject customers, and how much to advance at any particular time. Vanquis Bank also uses internal behavioural data along with external bureau data to re-score every account every month to inform credit line, price and contact decisions.

The approach to lending we have developed over the past 130 years means we are well placed to decide to whom we will lend, and to whom we will not. We currently turn down around 50% of home credit applicants and around 80% of applications to Vanquis Bank.

Affordable repayments

Our approach to collecting repayments from customers is both practical for us and helpful for them. From our experience of lending to customers in the non-standard credit market, we know that those on modest incomes have particular needs and our approach to collecting repayments addresses those needs.

The home credit business includes a weekly visit from a local agent to customers’ homes to collect repayments. This weekly routine helps customers to keep their account in order and means they do not need to worry about having the money in their bank account on a particular date with the consequent danger if they do not of incurring default charges. There are occasions when our home credit customers miss repayments or make reduced repayments; they incur no extra charges whatsoever for this.

Vanquis Bank customers who sign up for our Repayment Option Plan can also choose to miss one repayment every six months. We find that allowing customers to miss occasional repayments within the terms and conditions of their credit agreement helps them remain good customers in the longer term and fits with their needs.

Vanquis Bank sets a high minimum monthly repayment level of 5% for customers with lower credit limits compared with most other credit card providers who set minimum repayments at 2% to 3%. This enables customers to stay in control of their finances. To make repayments as flexible as possible, Vanquis Bank customers can choose to make payments fortnightly or monthly and pay by a variety of means.

Our ongoing dialogue with customers means that difficulties can be identified early, discussed with the customer, and actions agreed.

Customer satisfaction

By developing and delivering products and services that are tailored to meet the needs of our customers, we are able to achieve customer satisfaction rates that are consistently high.

The table (below) shows overall customer satisfaction with our main services for the period 2005-2009.

	% of home credit customers very or quite satisfied with the service	% of Vanquis Bank customers rating their overall experience as good or excellent
2005	94	n/a
2006	93	n/a
2007	94	84
2008	95	88
2009	**94**	**86**

Our people

Our people are vital to Provident's success and investing in them will help our business to flourish.

3,700

Total number of group employees

> Provident aims to attract, develop and retain the best people by providing a working environment that is safe, inclusive and meritocratic.

A great place to work

In order to continue to operate a sustainable business, Provident aims to attract, develop and retain the best people by providing a working environment that is safe, inclusive and meritocratic, and where behaviours that are aligned with our core values are recognised and rewarded. As such, we are committed to investing in the 3,700 people we employ across the UK and Ireland to help them reach their full potential and help our businesses to flourish.

Developing talent, leadership skills and capabilities of our people

Our people are at the heart of what we do as a business. It is therefore incumbent upon us to continue to train and develop them to ensure that they maximise their career potential and contribute to the long-term success of our business. We aspire to create a culture where everyone is supported, developed and encouraged at all levels and where everyone strives to achieve the highest quality standards in meeting our business objectives and their personal goals.

Throughout 2008 and 2009, both our businesses introduced a range of training and development programmes to improve the way in which training is delivered to staff and subsequently recorded.

Within the Consumer Credit Division, the career development programme is the Effective Performance Management (EPM) process. The purpose of the EPM process is to identify development opportunities to improve individual performance in line with the individual's current role, future roles and future business requirements. The process includes quarterly performance reviews and annual career reviews. These reviews are used to highlight an individual's development needs, which are in turn documented and monitored using a Personal Development Plan (PDP). PDPs are updated each time a formal review takes place, with newly identified development needs and progress reviewed against existing development needs.

Within Vanquis Bank, two different career development programmes are in place. Annual performance reviews are used for all non contact centre staff and all managers. Six-monthly performance reviews are used for all contact centre staff who are not managers. PDPs are used to complement and link to the annual performance reviews and the objective setting process. In addition, an annual process is in place to identify and support employees with high potential or who are rising stars.

Both the Consumer Credit Division and Vanquis Bank continue to use learning management systems in order to deliver a range of role-related computer-based training (CBT) courses that can be accessed by employees via our intranets. Throughout 2009, CBT courses were delivered to staff on a range of topics, including the Consumer Credit Act 2006, the 'Treating Customers Fairly' regulatory regime, the Data Protection Act, complaint handling processes, and personal safety.

During 2009, the Consumer Credit Division received accreditation from the Chartered Management Institute (CMI) to develop and deliver two courses for the leaders of tomorrow. The leadership management programme, which is for area and head office managers, meets the CMI's 'Level 3 Diploma in First Line Management' standard, and the senior leadership and management programme, which is for senior managers from across the business, meets the 'Level 5 Diploma in Leadership and Management' standard.

Managing workplace diversity

Provident Financial is committed to providing a working culture that is inclusive to all and ensuring that equal opportunities underpin our recruitment, employment, training and remuneration practices. Our corporate policy states that we will ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities and that no job applicant, employee or third party acting on behalf of the company will receive less favourable treatment because of race, colour, nationality, ethnic or other national origin, gender, sexual orientation, marital status, age, disability, religion or belief.

Both the Consumer Credit Division and Vanquis Bank undertook a range of activities during 2009 to reinforce our corporate commitment to manage diversity-related issues. For example, the Consumer Credit Division developed an action plan that was approved by the divisional board to improve diversity management performance across the business. In addition, we worked with the Employers' Forum on Disability to develop an interactive line manager guide on attendance management and disability. During 2010, this guide will be made available to line managers via the learning management systems on Provident Financial's intranet sites.

88%

Percentage of children who said taking part in Spark made them feel proud

10,000

Number of children who took part in Spark

Spark

Spark gave thousands of primary school children the opportunity to experience a host of creative activities including rap writing, street dance, poetry and ethnic drumming. It gave children of all academic abilities the chance to express themselves and discover new talents, raising confidence and self-esteem.

Engaging and inspiring our people

In January 2009, we carried out the third employee engagement survey across the Consumer Credit Division and corporate office. The survey measured the level of engagement based on employees' willingness to 'say' (i.e. to speak positively about Provident to colleagues, potential employees and customers), 'stay' (i.e. to show desire to be part of the company) and 'strive' (i.e. to volunteer extra effort and engage in behaviour that contributes to the company's success). The overall engagement score within the Consumer Credit Division and corporate office rose to 60% compared with 42% in 2007. The feedback obtained through the engagement surveys has been used to develop a number of work streams that will be introduced across our business to improve employee engagement levels.

Playing an active role in our communities

Provident Financial's mission is to be the leading non-standard lender in the UK and Ireland, acting responsibly in all our relationships and playing a positive role in the communities we serve. With this mission statement it is imperative that we conduct our business dealings responsibly and ensure that we have a positive impact on the communities in which our customers, agents and employees live and work. Our approach to community involvement has two main strands: helping to address the education and social inclusion needs of young people who live in less privileged communities, and working with the money advice sector on issues such as financial education.

2009 was a significant year for our community involvement programme and saw the launch of a major new strand of our programme and the last year of funding for our Spark project.

Spark

For the past four years, Spark has been our flagship community involvement project. It has been an ambitious and exciting arts education project which has brought creative arts education into hundreds of classrooms in schools from disadvantaged areas of the UK and Ireland. Spark was managed throughout the UK and Ireland by the West Yorkshire Playhouse in partnership with seven other theatres in Battersea, Birmingham, Bolton, Dublin, Dundee, Edinburgh and Newport.

Between 2006 and 2009, Spark has provided more than 10,000 children and 260 teachers with opportunities to participate, learn, and develop through experiencing creative art forms in school. Developed as a partnership initiative from the outset, Spark has forged a network of sustainable community-based partnerships between commerce, schools, arts venues, artists, parents and local education authorities. It also provided employment for local professional artists and is aligned with key Government education and cultural agendas. The classroom-based workshops and integral celebration events enabled thousands of children to learn new creative arts skills, increase their confidence, and experience a sense of pride and achievement. Spark has enriched team and group working skills, respect and co-operation, speaking and listening skills, language development and creativity.

Over the last four years, we have worked closely with all our project partners to ensure that the Spark project leaves a robust legacy of improvement in the provision of arts education. It is important to us that our funding achieves a sustainable platform for development and growth. Through Spark, theatre venue partners have been able to build close working relationships with primary schools in their regions – schools that in many cases had never previously visited the theatre or had an arts education agenda. Arts centres learned what schools need, and teachers learned how creative techniques reach and inspire young children. Since Spark, many theatres and schools have continued to collaborate independently on other arts education projects.

Being a good neighbour

Following stakeholder research that was carried out during 2008, a major new strand of our community programme called Good Neighbour was launched in 2009. It will replace Spark as Provident's flagship community programme and support our ambition to play a positive role in the communities we serve. Good Neighbour has the following three components:

1. Supporting local projects: Working in partnerships with local community organisations, Good Neighbour will deliver projects which are tailored to meet the needs of local residents. Major projects will be run over a three-year period, and there will be opportunities to deliver smaller, one-off projects too.

2. Employee volunteering: Good Neighbour will support employees participating in company-led volunteering projects, including one-to-one mentoring projects, the Provident Financial Reading Scheme, and Team Challenges.

3. Employee matched-giving: Employees taking part in fundraising activities or volunteering in their local communities can apply for matched giving and volunteering grants to make their contribution go even further.

604

Employees volunteered in 2009

9

Long-term Good Neighbour projects started

Good Neighbour
Provident's Community Partnerships

Good Neighbour

Team challenges are an important component of our Good Neighbour programme, They give our employees the opportunity to spend time out of the office helping their local community while also developing their own skills.

16

Number of team challenges in 2009

Since the launch of Good Neighbour earlier this year, Provident Financial has established nine long-term projects with a range of community partners. These include:

- Sedbergh Youth and Community Centre: This centre serves the areas of Odsal, Buttershaw, Woodside and Wyke in Bradford. Provident Financial has provided funding for a new, part-time project co-ordinator, plus funding for a range of new daytime and evening activities, including: the young at heart pensioner group, a parent and toddler group, a youth club, mini tennis coaching and a school holiday project.

- Sefton Enterprises Limited: This organisation is a registered charity that has been serving the needs of people within Sefton, Liverpool, for over 30 years. Funding has been provided to allow two new part-time posts to be created for local people to support and expand the work of the charity. Funding will be provided for a community project which will allow adults and younger learners to work together, encouraging unemployed residents to improve their skills and gain employment by taking part in projects which will improve the physical environment of the area. Support has also been given for a summer camp to allow 20 local, young people to take part in team-building and improving self-confidence sessions in Snowdonia.

- Boomerang: This is a community organisation based in the Stobswell area of Dundee. The organisation provides services and activities for over 300 members of the local community. Funding will be used to provide an IT worker to work in their Learning Centre supporting the long-term unemployed, those recently made redundant and those in low paid occupations. Funding has also been provided for a Friday and Saturday evening Youth Café to help prevent antisocial behaviour in the area.

In addition to the above, a number of one-off projects across the country have been funded to date, including: equipment for a sensory garden at a special needs school in Ayr; an after-school project in Halifax; and a support programme in Stoke-on-Trent for families affected by drugs or alcohol.

In terms of employee matched funding and the volunteering component of Good Neighbour, 604 employees took part in 16 team challenges and other volunteering initiatives during 2009.

Money advice and financial education projects

We support, through financial contributions and other means, a programme to provide debt advice and financial education across the UK. During 2009, we continued to work with a number of organisations in this sector, including Advice UK, Citizens Advice, Consumer Credit Counselling Service, Institute of Money Advisers, Money Advice Liaison Group, Money Advice Scotland, Money Advice Trust, and National Debtline. We also worked with the following more specialised providers: Credit Action, DebtCred, and Christians Against Poverty.

Responsible procurement

Ensuring that we purchase products and services that have minimal impacts on the environment and are socially responsible and ethical is a key component of our CR programme. In 2009, the annual procurement spend of the Provident Financial group was £87.7m, making our supply chain a significant part of our CR footprint. This means it is vital that we work to ensure our suppliers are aware of our commitments to manage the social, environmental and economic impact of our operations. Furthermore, it is important that we seek to improve the sustainability credentials of the products and services we procure for our businesses.

Prompt payment

We remain committed to ensuring that we treat our suppliers in a fair and reasonable manner. This means paying our suppliers in accordance with their agreed terms and conditions. This is particularly important to small and medium sized enterprises (SMEs) as late payment can severely affect an SME's cash flow.

Sustainability assessments

During 2008 and 2009, we started undertaking site audits to verify the compliance of suppliers with our environmental, health and safety, and data protection policies. For example, work was carried out to implement new waste management and recycling facilities within the Consumer Credit Division's network of branch offices. This involved using a CR questionnaire at the pre-qualification and invitation to tender stages to elicit social, environmental and ethical information from prospective suppliers, and undertaking visits to sites managed by a range of organisations. On the basis of the information generated by this work, we were able to select a supplier who would be able to increase our recycling rates and minimise the waste generated by our branch offices.

Green fleet

We've taken steps to make our company car fleet more environmentally friendly and increase our contribution to reducing climate change. We now offer more fuel-efficient cars, including those that use hybrid technology, to reduce carbon dioxide emissions.

> We recognise that by actively managing our environmental impacts we can contribute to the long-term sustainability of our business.

Minimising our impact on the environment

Our values state that we will conduct our business in a responsible manner and this includes ensuring that we manage our impacts on the environment. As a business with operations spread across many towns and cities in the UK and Ireland, Provident Financial has a number of impacts on the environment. These impacts relate to a wide range of issues, including energy use and transport, water consumption, waste management, and the use of materials such as paper.

While our impacts on the environment are small compared to businesses in some other sectors, we recognise that by actively managing our environmental impacts we can contribute to the long-term sustainability of our business. This means ensuring that we identify opportunities to reduce levels of energy and resource use, and being accountable for our impact on global environmental issues such climate change.

Operating in a low carbon economy

We recognise that climate change represents one of the most significant environmental challenges facing society. To address this issue, we published our low carbon strategy in 2007 which underlines our commitment to reduce the carbon intensity of our operations. Throughout 2009, we undertook a range of activities which helped deliver our low carbon strategy. This included:

- Continuing to measure, report and benchmark the carbon dioxide emissions associated with our business activities.
- Engaging with our customers on money-saving tips, including those which relate to energy efficiency.
- Purchasing a significant proportion of electricity from the 'Good Quality Combined Heat and Power' scheme which reduces the carbon intensity of the power we use.
- Offsetting the carbon dioxide emissions associated with the business-related journeys made by employees using their own vehicles, train journeys and flights by making an investment in a small-scale renewable energy project.

Green office

Throughout 2009, we made progress with our plans to relocate our head office to a new site in Bradford city centre. The move, which is scheduled to take place in 2010, will give us the opportunity to implement measures to reduce our impact on the environment at the design and procurement stages of this development. To this end, we will use the Building Research Establishment Environmental Assessment Methodology (BREEAM) for Offices in the development of the new offices. This methodology is the world's most widely used means of reviewing and improving the environmental performance of office buildings. Buildings are assessed and awarded credits according to their level of performance within a range of environmental categories including energy use, health and well being, transport, materials and water. The credits are then added together using a set of environmental weightings to produce a single overall score. The building is then rated as either Outstanding, Excellent, Very Good, Good or Pass. It is anticipated that Provident's new offices will achieve a rating of Very Good.

Our directors, officers and board committees


1


2


3


4


5


6


7


8

Audit committee
Manjit Wolstenholme (Chair)
Rob Anderson
Robert Hough

Executive committee
Peter Crook (Chair)
Andrew Fisher
Chris Gillespie

Nomination committee
John van Kuffeler (Chair)
Peter Crook
Rob Anderson
Robert Hough
Manjit Wolstenholme

Remuneration committee
Robert Hough (Chair)
Rob Anderson
Manjit Wolstenholme

Risk advisory committee
Rob Anderson (Chair)
Andrew Fisher
Robert Hough
Manjit Wolstenholme

1. Peter Crook
Chief Executive Age 46
Qualified as a chartered accountant in 1988 having graduated in economics. Between 1990 and 1997 he held a number of different roles within Halifax plc. He then moved to Barclays plc, becoming UK Managing Director of Barclaycard in 2000 and Managing Director of UK Consumer Finance in 2004. He joined Provident Financial in September 2005 as Managing Director of the Consumer Credit Division and was appointed to the board in March 2006. He became Chief Executive in July 2007.

2. Andrew Fisher
Finance Director Age 52
Qualified as a chartered accountant in 1983 having graduated in economics and accounting. He joined Provident Financial in May 2006 as Finance Director and was appointed to the board. Prior to this appointment, he held the position of Finance Director at Premier Farnell plc for 11 years. He was previously a partner at Price Waterhouse.

3. Chris Gillespie
Managing Director, Consumer Credit Division Age 47
Joined Barclays in 1979, where he rose to hold a number of senior positions, including Director of Consumer Lending from 2000 to 2002, having qualified as a certified accountant in 1996. He then moved to HFC Bank as Group Director before joining Bradford & Bingley in 2005 as Group Lending Director. He joined Provident Financial in May 2007 as Managing Director of the Consumer Credit Division and was appointed to the board in July 2007.

4. John van Kuffeler
Non-executive Chairman Age 61
Graduated with a degree in economics and qualified as a chartered accountant in 1973. He joined Provident Financial in 1991 as Chief Executive and was appointed Executive Chairman in 1997. He became non-executive Chairman in 2002. He is also non-executive Chairman of Hyperion Insurance Group Limited. Prior to 1991, he was Chief Executive of Brown Shipley Holdings plc.

5. Robert Hough
Senior independent non-executive director Age 64
Qualified as a solicitor in 1970 having graduated in law. He was appointed to the board of Provident Financial in February 2007. He was executive Deputy Chairman of Peel Holdings p.l.c. for 15 years until 2002. He is now a non-executive director of Peel Holdings (Management) Limited and Chairman of the North West Regional Development Agency. He was previously Chairman of Cheshire Building Society.

6. Rob Anderson
Independent non-executive director Age 51
Graduated with a degree in business studies and joined Marks and Spencer plc, where he spent 19 years, latterly as director of the childrenswear business unit. He joined Signet Group plc in 2000 and was appointed Chief Executive of Signet Jewelers Limited's UK division in 2002. He was appointed to the board in March 2009.

7. Manjit Wolstenholme
Independent non-executive director Age 45
After qualifying as a chartered accountant in 1988 with Price Waterhouse, she spent 13 years with Dresdner Kleinwort, latterly as co-head of investment banking. She was a partner at Gleacher Shacklock from 2004 to 2006 and is a non-executive director of Capital and Regional plc. She joined the board of Provident Financial in July 2007.

8. Ken Mullen
General Counsel and Company Secretary Age 51
Qualified as a lawyer in Scotland in 1983 having graduated in law. He joined Provident Financial in June 2007 from Hagemeyer (UK) Limited. He has been company secretary and legal counsel for a number of UK listed companies, including Premier Farnell plc, Silentnight Holdings plc and Whessoe plc.

Governance

Contents

"Good corporate governance reporting is now firmly entrenched as part of our corporate culture. Our aim is to meet fully the demands of our stakeholders for information to allow them to evaluate our performance in this crucial area."

John van Kuffeler
Non-executive Chairman

Ken Mullen
General Counsel and Company Secretary

Peter Crook
Chief Executive

1 Share capital

1.1 Increase in issued ordinary share capital

During the year, the ordinary share capital in issue increased by 2,825,147 shares to 134,398,881 shares. Details are set out on page 118 in note 24 of the notes to the financial statements.

1.2 Employee savings-related share option schemes

The current scheme for employees resident in the UK is the Provident Financial plc Employee Savings-Related Share Option Scheme 2003 ('the 2003 scheme'). Options are also still outstanding under the Provident Financial plc Employee Savings-Related Share Option Scheme 1993 ('the 1993 scheme'), under which no further options can be granted. In 2000, the company adopted a separate scheme, the Provident Financial plc International Employee Savings-Related Share Option Scheme ('the 2000 scheme'), for employees who are resident outside the UK. The 2000 scheme was implemented in the Czech Republic, Hungary, Poland, Ireland and Slovakia. Options are still outstanding in Ireland only. Details of options granted and exercised from 1 January 2009 to 2 March 2010 are shown in the tables in paragraphs 1.4 and 1.5 on page 51.

1.3 Executive share option schemes

Options were outstanding under the Provident Financial plc Senior Executive Share Option Scheme (1995) ('the 1995 scheme') and options are outstanding under the Provident Financial plc Unapproved Senior Executive Share Option Scheme (1996) ('the 1996 scheme'). No further options may be granted under these schemes. Options are also outstanding under the Provident Financial Executive Share Option Scheme 2006 ('the ESOS'). No options are outstanding under the Provident Financial Long Term Incentive Scheme 2006 ('the LTIS'). Details of options exercised from 1 January 2009 to 2 March 2010 are shown in the table in paragraph 1.5 on page 51. As set out in paragraph 6.13 on page 68 of the directors' remuneration report, the remuneration committee did not grant any options during the year under the ESOS or the LTIS.

1.4 Share options: grants 1 January 2009 – 2 March 2010

Date of grant of option	Name of scheme	Number of shares	Exercise price (p)	Normal exercise dates
2 September 2009	2003 scheme	448,371	656p	December 2012 – May 2017
2 September 2009	2000 scheme	11,863	656p	December 2012 – May 2013

1.5 Share options: exercises 1 January 2009 – 2 March 2010 and outstanding share options

Name of scheme	Options exercised in 2009	Options outstanding at 31 December 2009	Normal exercise dates	Exercise price (p)	Exercised from 01.01.2010 to 02.03.2010
1993 scheme	39,647	1,536	up to 2010	468.00	–
1995 scheme	562	–	–	–	–
1996 scheme	49,438	26,528	up to 2015	622.00 – 709.00	–
2000 scheme	6,272	41,847	up to 2014	656.00 – 716.00	–
2003 scheme	310,847	1,375,546	up to 2016	453.00 – 716.00	5,689
ESOS	1,043,867	82,556	up to 2016	577.25	–
LTIS	124,561	–	–	–	–

1.6 Conditional share awards

The remuneration committee granted conditional share awards under the LTIS during 2009, details of which are set out in paragraph 1.7 below. Shares have been awarded under the LTIS conditional upon the achievement of a performance target, details of which are set out in paragraph 6.14 on page 68 of the directors' remuneration report.

1.7 Conditional share awards: 1 January 2009 – 2 March 2010 and outstanding awards

Name of scheme	Awards granted during the year	Awards unconditionally transferred by Trustee during the year	Vesting date	Awards lapsed during the year	Awards outstanding at 2 March 2010
LTIS	883,931	–	up to 2012	36,595	2,316,169

1.8 Total number of shares utilised for share option schemes

The table in paragraph 1.9 on page 52 shows the total number of shares utilised for the executive share option schemes (the LTIS, the ESOS, the 1995 scheme and the 1996 scheme) in the 10 years preceding this report. The table in paragraph 1.10 on page 52 shows the total number of shares utilised for the savings-related share option schemes (the 1993 scheme, the 2000 scheme and the 2003 scheme) in the 10 years preceding this report. In addition, 366,022 shares have been utilised for the Provident Financial Performance Share Plan (the PSP). As at 31 December 2009, subsisting options had been granted under all schemes and in respect of the PSP over 82.87% of the total number of shares available for all share options (which is 10% of the issued share capital).

Following demerger of the international business on 16 July 2007 and the subsequent share consolidation, the number of shares in issue was halved. As a consequence of this, the 5% anti-dilution limit contained within the share option schemes and the PSP was completely utilised so that it was no longer possible for the company to satisfy any new awards granted under the executive share option schemes and the PSP using newly issued shares (as opposed to satisfying awards by making market purchases of shares). Had the demerger not occurred, the company would have had sufficient headroom under the existing 5% limit to continue to satisfy awards under the executive share option schemes and the PSP using newly issued shares.

The remuneration committee considers the LTIS an important means of incentivising and retaining key executives and senior management and consequently a resolution seeking shareholder approval for the temporary removal of the 5% anti-dilution limit from the LTIS rules was passed at the 2008 annual general meeting ('the 2008 AGM') of the company on 8 May 2008. This allows the continued operation of the LTIS and for awards granted to be satisfied using newly issued shares, up to the 10% anti-dilution limit in any 10 years, which applies to all share incentive schemes operated by the company. In due course, the remuneration committee intends to re-introduce the 5% limit when the LTIS and the PSP can be effectively operated in accordance with and subject to a 5% anti-dilution limit. Information on the resolution was included in the shareholders' circular and notice of the 2008 AGM.

1.9 Share option schemes: shares utilised for executive share schemes

Year of grant	Number of options granted	Number of options exercised	Number of options lapsed
2000	1,152,741	1,057,741	95,000
2001	371,460	238,302	129,300
2002	1,050,919	663,600	364,649
2003	1,392,038	854,538	537,500
2004	1,700,347	1,002,847	697,500
2005	1,593,842	756,298	837,544
2006	2,666,693	1,168,428	1,415,709
2007	–	–	–
2008	9,642[1]	–	–
2009	1,249,953[2]	–	–
Total	11,187,635	5,741,754	4,077,202

[1] Conditional share awards as referred to in paragraph 1.7 on page 51.
[2] Conditional share awards as referred to in paragraph 1.7 on page 51 and awards made under the Performance Share Plan as referred to in paragraph 1.8 on page 51.

1.10 Share option schemes: shares utilised for savings-related share option schemes

Year of grant	Number of options granted	Number of options exercised	Number of options lapsed
2000	658,813	14,138	644,675
2001	1,527,966	823,828	704,138
2002	854,043	519,182	333,325
2003	643,990	291,051	339,330
2004	848,975	509,995	308,729
2005	535,464	245,882	207,994
2006	552,987	198,587	145,174
2007	402,514	4,900	83,626
2008	365,785	629	51,583
2009	460,234	–	5,076
Total	6,850,771	2,608,192	2,823,650

1.11 The Provident Financial Qualifying Employee Share Ownership Trust ('the QUEST')

The QUEST, a discretionary trust for the benefit of group directors and employees, was established to operate in conjunction with the 1993 scheme and the 2003 scheme. The trustee, Provident Financial Trustees Limited, is a subsidiary of the company. As at 31 December 2009 (2008: nil), the trustee held no ordinary shares in the company, and as a consequence, the QUEST is in the process of being wound up. Further details on the QUEST are set out on page 118 in note 24 of the notes to the financial statements.

1.12 Provident Financial plc 2007 Employee Benefit Trust ('EBT')

The EBT, a discretionary trust for the benefit of group directors and employees, was established on 11 September 2007 and operates in conjunction with the LTIS. The trustee, Kleinwort Benson (Jersey) Trustees Limited is not a subsidiary of the company. The EBT has previously purchased shares in the market for the purpose of the LTIS and, following the passing of a resolution at the 2008 AGM, is now able to subscribe for the issue of new shares. The EBT will, at no time, hold more than 5% of the issued share capital of the company. When the EBT purchases shares in the market, it is funded by loans from the company which are then used to acquire ordinary shares for the purposes of satisfying conditional share awards granted under the LTIS. For the purposes of the financial statements the EBT is consolidated into the company and group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 26 on page 122 of the financial statements. On 8 May 2009 the company provided a loan of £183,214.79 to the EBT for the purposes of acquiring ordinary shares of 20⁸⁄₁₁p in the company and in order to satisfy the awards made under the LTIS on 8 May 2009, the EBT subscribed for the issue of 883,931 new shares.

1.13 Provident Financial Employee Benefit Trust ('the PF Trust')

The PF Trust, a discretionary trust for the benefit of group directors and employees, was established on 31 January 2003 and operates in conjunction with the PSP. The trustee, Provident Financial Trustees (Performance Share Plan) Limited is a subsidiary of the company. The PF Trust will, at no time, hold more than 5% of the issued share capital of the company. The PF Trust has previously purchased shares in the market for the purpose of satisfying awards granted under the PSP. When the PF Trust purchases or subscribes for shares, it is funded by loans from the company which are then used to acquire ordinary shares for the purposes of satisfying share awards granted under the PSP. For the purposes of the financial statements the PF Trust is consolidated into the company and group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 26 on page 122 of the financial statements. On 4 March 2009 the company provided a loan of £59,798.80 to the PF Trust for the purposes of subscribing for 288,503 ordinary shares of 20⁸⁄₁₁p in the company in order to satisfy the awards made under the PSP on 4 March 2009. On 8 May 2009, the company provided a further loan of £16,057.57 to the PF Trust for the purposes of subscribing for 77,519 ordinary shares of 20⁸⁄₁₁p in the company in order to satisfy the awards made under the PSP on 8 May 2009.

1.14 Authority to purchase shares

At the 2009 AGM, the shareholders authorised the company to purchase up to 13,188,373 of its ordinary shares up until the date of the next AGM or, if earlier, 5 May 2010. No shares were purchased pursuant to this authority. A further authority for the company to purchase its own shares will be sought from shareholders at the forthcoming AGM to be held on 5 May 2010.

1.15 Power to allot shares for cash

At the 2009 AGM, the shareholders authorised the directors to allot equity securities (now as defined by the Companies Act 2006) for cash up to an aggregate nominal amount of £1,366,794. A further authority for the directors to allot equity securities for cash will be sought from shareholders at the forthcoming AGM to be held on 5 May 2010.

1.16 Substantial shareholdings
On the basis of the information available to the company as at 2 March 2010, the following investment managers (through segregated managed funds) have interests (though not necessarily beneficial ownership) in aggregate amounting to over 3% (5% for investment trusts and collective investment companies) in the issued ordinary share capital of the company:

Invesco Limited	18.04%
Schroders plc	12.03%
Prudential plc	7.37%
Marathon Asset Management LLP	5.30%
Standard Life Investments Limited	4.59%
Jupiter Asset Management Limited	4.68%
Baillie Gifford & Co.	4.37%
Legal & General Group Plc	3.98%

2 Directors

2.1 The directors of the company as at 31 December 2009, are listed in paragraph 3.1. The majority served as directors throughout 2009 and up to the date of signing of the financial statements. Rob Anderson was appointed as a director on 2 March 2009 and John Maxwell resigned as a director on 6 May 2009.

2.2 During the year no director had a material interest in any contract of significance to which the company or a subsidiary undertaking was a party.

2.3 The company's articles of association ('the articles') permit it to indemnify directors of the company (or of any associated company) in accordance with the Companies Act 2006. The company may fund expenditure incurred by directors in defending proceedings against them. If such funding is by means of a loan, the director must repay the loan to the company if he/she is convicted of any criminal proceedings or judgement is given against him/her in any civil proceedings. The company may indemnify any director of the company or of any associated company against any liability. However, the company may not provide an indemnity against any liability incurred by the director to the company or to any associated company; against any liability incurred by the director to pay a criminal or regulatory penalty; or against any liability incurred by the director in defending criminal proceedings in which he/she is convicted, or in defending any civil proceedings brought by the company (or an associated company) in which judgement is given against him/her, or in connection with certain court applications under the Companies Act 2006. No indemnity was provided and no payments pursuant to these provisions were made in 2009 or at any time up to 2 March 2010.

3 Directors' interests in shares

3.1 The beneficial interests of the directors in the issued share capital of the company were as follows:

	Number of shares	
	31 December 2009	31 December 2008
John van Kuffeler	9,000	9,000
Peter Crook[1]	554,943	265,770
Andrew Fisher[1]	412,122	198,027
Chris Gillespie[1]	370,438	191,589
Rob Anderson[2]	–	–
Robert Hough	1,425	1,425
John Maxwell[3]	–	1,050
Manjit Wolstenholme	5,663	5,663

1 These interests include conditional share awards granted under the LTIS and awards under the PSP as detailed in paragraphs 9.2 and 10.1 on pages 72 and 73 of the directors' remuneration report, and deferred shares under the deferred bonus scheme as detailed in paragraph 6.18 on page 70.
2 Appointed as a director on 2 March 2009.
3 Resigned as a director on 6 May 2009.

3.2 No director had any non-beneficial holdings at 31 December 2009 or at any time up until 2 March 2010.

3.3 The EBT operates in conjunction with the LTIS and the beneficial interest in shares is transferred from the EBT to directors and employees when conditional share awards are made. Full vesting of such shares is subject to the achievement of the performance targets set out in paragraph 6.14 on page 68 of the directors' remuneration report. As at 31 December 2009 the EBT held the non-beneficial interest in 2,452,799 shares in the company (2008: 1,507,849).

3.4 Details of options granted to and exercised by directors are set out in paragraphs 8.1 and 9.1 on pages 71 and 72 of the directors' remuneration report. Details of conditional share awards made to directors are set out in paragraph 9.2 on page 72 and details of awards under the PSP are set out in paragraph 10.1 on page 73 of the directors' remuneration report.

3.5 There were no changes in the beneficial or non-beneficial interests of the directors between 1 January 2010 and 2 March 2010.

3.6 John Maxwell retired from the board at the AGM on 6 May 2009. Rob Anderson was appointed to the board as a non-executive director on 2 March 2009 and his appointment was approved by shareholders at the 2009 AGM. Following John Maxwell's retirement, Robert Hough was appointed as the senior independent director and chairman of the remuneration committee with effect from 6 May 2009. Rob Anderson was appointed as chairman of the risk advisory committee on the same date.

4 Employee involvement

4.1 The company encourages employee involvement in the company's activities and performance through operating company newsletters, regular management team briefings, staff meetings and conferences including trades union meetings in those companies which recognise unions. The company carries out employee engagement surveys on a regular basis. Details of the survey are included in the corporate social responsibility report on page 45.

4.2 The company operates three savings-related share option schemes (referred to in paragraph 1.2 on page 50), aimed at encouraging employees' involvement and interest in the financial performance and success of the group through share ownership. 1,419 employees are currently saving to buy shares in the company under these schemes.

4.3 The group operates two pension schemes. Involvement in the group defined benefit pension scheme is achieved by the appointment of member nominated trustees and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pensions matters. The group also operates a stakeholder pension plan for employees who joined the group from 1 January 2003. Employees in this plan receive regular newsletters and have access to a dedicated website which provides information on their funds.

4.4 The company is fully committed to encouraging employees at all levels to study for relevant educational qualifications and to training employees at all levels in the group.

5 Environmental, social and governance matters

5.1 During the year, the company made donations for charitable purposes of £1,046,841 (2008: £506,602). The group invested a further £282,576 (2008: £290,163) in support of community programmes (based on the London Benchmarking Group's guidelines). Further information can be found in the Corporate Responsibility review on pages 40 to 47 of the directors' report. No political donations were made (2008: £nil).

5.2 Details of the group's corporate responsibility activities are set out on pages 40 to 47 of the directors' report and on the company's website.

5.3 The board takes regular account of the significance of environmental, social and governance ('ESG') matters to the businesses of the group. A corporate affairs activity report, which includes corporate responsibility and community affairs sections, is presented at each board meeting. Responsibility for this area rests with the Chief Executive, Peter Crook.

5.4 The group's risk management processes, details of which are set out in paragraph 7 on page 61 and in paragraph 9 on page 62 (internal control) of the key governance principles section of the directors' report, enable the board to review and manage material risks arising from ESG matters. The board has systems in place to identify and manage significant ESG risks and considers that it has adequate information relating to these.

5.5 There are no specific remuneration incentives in the group based on ESG matters. However, the annual bonus scheme for executive directors comprises specific objectives, which include such matters where appropriate; details of this are set out in paragraph 6.6 on page 67 of the directors' remuneration report. Details of training for directors are set out in paragraph 2.16 on page 58 of the key governance principles section of the directors' report.

5.6 Working groups have been established across the business to co-ordinate the management of the company's corporate responsibility performance. The group's community involvement programme is subject to an annual external assurance review to assess its application of the London Benchmarking Group model and the effectiveness of the implementation of its community strategy. The environmental management system in place is also subject to an annual independent audit against the requirements of ISO 14001. Finally, the annual corporate responsibility report is independently assured against the principles of materiality, completeness and responsiveness which underpin the international assurance standard AccountAbility 1000 and the G3 sustainability reporting guidance of the Global Reporting Initiative.

6 Health and safety

6.1 The group attaches great importance to the health and safety of its employees, to the self-employed agents it engages and other people who may be affected by its activities.

6.2 The board has approved a group-wide health and safety policy and a framework for health and safety. Each divisional board is responsible for the issue and implementation of its own health and safety policy in order to comply with the division's day-to-day responsibility for health and safety. Health and safety is considered regularly at divisional board meetings and each divisional board produces a formal written report on compliance with the group-wide health and safety policy and framework for the board of the company once a year in February.

6.3 An annual audit of the health and safety policies established by the Consumer Credit Division, in particular those relating to agent safety, is carried out by the company's insurers Chartis Insurance UK Limited. The results of the 2009 audit showed an excellent level of compliance with the policies and made recommendations which would enhance the current processes, which are in the process of being implemented.

7 Equal opportunities

7.1 The company is committed to equal opportunity in recruitment, promotion and employment and does not discriminate on the basis of age, gender, disability, religion or belief, nationality, ethnic or racial origin, sexual orientation or marital status.

7.2 The company gives full and fair consideration to applications for employment from disabled persons where they have the appropriate skills and abilities. It is the policy of the group that the training, career development and promotion opportunities of disabled persons should, as far as possible, be identical to that of other employees.

7.3 In the event of an employee becoming disabled, every effort is made to ensure their employment with the group continues and employees are re-trained where necessary to enable them to perform work identified as appropriate and tailored, where practicable, for their specific needs, aptitudes and abilities.

8 Supplier policy statement

8.1 The company agrees terms and conditions for its business transactions with suppliers and payment is made in accordance with these, subject to the terms and conditions being met by the supplier.

8.2 The company acts as a holding company and had no trade creditors at 31 December 2009 or at 31 December 2008. The average number of days' credit taken by the group during the year was 17 days (2008: 25 days).

9 Financial instruments

Details of the financial risk management objectives and policies of the group and the exposure of the group to credit risk, liquidity risk, interest rate risk and foreign exchange rate risk are included on pages 88 to 90 of the financial statements.

10 Takeovers Directive disclosures

10.1 Details of the company's issued share capital are set out on page 118 in note 24 of the notes to the financial statements and details of significant shareholdings are set out on page 53 of this report. All of the company's issued ordinary shares are fully paid up and rank equally in all respects and there are no special rights with regard to control of the company. The rights attached to them, in addition to those conferred on their holders by law, are set out in the company's articles. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except: (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the FSA's listing rules or the City Code on Takeovers and Mergers.

10.2 Details of the QUEST, the EBT and the PF Trust, which are operated in accordance with the company's employee share schemes, are set out in paragraphs 1.11, 1.12 and 1.13 on page 52 of this report. As at 31 December 2009, neither the QUEST nor the PF Trust held any shares in the company and the EBT, which cannot hold more than 5% of the issued share capital of the company, may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the employee beneficiaries.

10.3 Rules about the appointment and replacement of directors are set out in the articles and in paragraph 2.12 on page 57 of the key governance principles section of this report. The directors' powers are conferred on them by UK legislation and by the articles. Changes to the articles must be approved by shareholders passing a special resolution and must comply with the provisions of the Companies Act 2006 and the FSA's Disclosure and Transparency Rules.

10.4 Details of the authority of the company to issue and purchase shares of the company are set out in paragraphs 1.14 and 1.15 on page 52 of this report.

10.5 There are no agreements between any group company and any of its employees or any director of any group company which provide for compensation to be paid to the employee or director for termination of employment or for loss of office as a consequence of a takeover of the company.

10.6 There are no significant agreements to which the company is a party that take effect, alter or terminate upon a change of control following a takeover bid for the company.

11 Disclosure of information to auditors

In the case of each person who is a director at the date of this report, it is confirmed that, so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and he/she has taken all reasonable steps that ought to have been taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

12 Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the forthcoming AGM.

13 Annual general meeting

The AGM will be held at 12.30pm on Wednesday 5 May 2010 at the Marriott Hollins Hall Hotel & Country Club, Hollins Hill, Baildon, Shipley, West Yorkshire BD17 7QW. The Notice of Meeting, together with an explanation of the items of business, will be contained in a circular to shareholders to be dated 25 March 2010.

Key governance principles

Contents

1 Introduction

This section explains how the company has applied the main and supporting principles set out in Section 1 of the Combined Code on Corporate Governance (June 2008) ('the Combined Code').

The statement of compliance is set out in paragraph 13 on page 63 of the directors' report.

2 The board

Composition

2.1 The board leads and controls the company. It currently comprises three executive directors, three non-executive directors and a Chairman. A.1 – Compliant

Division of responsibilities between the Chairman and the Chief Executive

2.2 The board has previously approved a statement of the division of responsibilities between the Chairman and the Chief Executive. The Chairman is responsible for chairing the board meetings and monitoring their effectiveness, chairing the AGM and the nomination committee. He is also responsible for ensuring that an effective strategy is approved by the board and that an annual evaluation of the board is carried out. The Chief Executive is primarily responsible for implementing the company's strategy, as well as being a focal point for communication with shareholders. All other responsibilities (other than those detailed above, those reserved to the board as a whole and the board committees) are the responsibility of the Chief Executive, who delegates appropriately. A.2.1 – Compliant

Chairman

2.3 The Chairman is also Chairman of Hyperion Insurance Group Limited. This appointment involves no more than one day's work per week. There have been no other material changes in his other commitments during the year or since the year end. A.4.3 – Compliant

Non-executive directors

2.4 Each of the non-executive directors has been formally determined by the board to be independent for the purposes of the Combined Code, as each was found to be free from any material business or other relationship with the company (either directly or as a partner, shareholder or officer of an organisation that has a relationship with the company). Accordingly, the board believes that there are no such relationships which could materially interfere with their independent judgement. A.3.1 – Compliant

2.5 Non-executive directors are currently appointed for fixed periods of three years, subject to appointment by shareholders. The initial three-year period may be extended for one further three-year period (and, in exceptional cases, further extended), subject to reappointment by shareholders. Their letters of appointment may be inspected at the company's registered office or can be obtained on request from the Company Secretary. A.4.4/A.7.2 – Compliant

2.6 Robert Hough was appointed as the senior independent director on 6 May 2009, when John Maxwell retired from the board. He is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate. A.3.3 – Compliant

Governance framework

2.7 The board has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets and financial results, new board appointments, proposals for dividend payments, the approval of all major transactions and authorisation of directors' interests that conflict, or may conflict with the interests of the company. This schedule is reviewed on an annual basis and was last reviewed on 22 October 2009. There are five principal board committees. All committees have written terms of reference which are reviewed on an annual basis and were last updated on 22 October 2009. The terms of reference can be found on the company's website or are available on request from the Company Secretary. In addition, the group has detailed corporate policies which set out authority levels within the group and were last reviewed and updated in June 2009. Divisional boards are required to report on compliance with the corporate policies on a biannual basis. A.1.1 – Compliant

Meetings

2.8 During 2009, the board had eight scheduled meetings and an annual planning conference. In 2010, and in future years, the board will have nine scheduled meetings as well as an annual planning conference. A pack of board papers (including a detailed agenda) is sent to each director in the week before the board meeting so that he/she has sufficient time to review them. All directors are, therefore, able to bring independent judgement to bear on issues such as strategy, performance, resources and standards of conduct. Additional meetings are called when required and there is frequent contact between meetings, where necessary, to progress the company's business. In 2009, the Chairman met with the non-executive directors without any executive director present. The non-executive directors met without the Chairman present to discuss the Chairman's performance and the senior independent director discussed comments arising with the Chairman.
A.1.3 – Compliant

	Board meetings
Total number of board meetings in 2009	9
John van Kuffeler (Chair)	9/9
Peter Crook	9/9
Andrew Fisher	9/9
Chris Gillespie	8/9
Rob Anderson[1]	7/7
Robert Hough	9/9
John Maxwell[2]	3/3
Manjit Wolstenholme	9/9

[1] Appointed as a director on 2 March 2009.
[2] Resigned as a director on 6 May 2009.

A.1.2 – Compliant

Company Secretary

2.9 All directors are able to consult with the Company Secretary. The appointment and removal of the Company Secretary is a matter for the board. The Company Secretary is secretary to all the board committees.
A.5.3 – Compliant

Independent advice

2.10 There is a formal procedure by which any director may take independent professional advice relating to the performance of his/her duties at the company's expense.
A.5.2 – Compliant

Insurance

2.11 The company has arranged appropriate Directors' and Officers' liability insurance in respect of legal action against directors.
A.1.5 – Compliant

Reappointment of directors

2.12 Under the company's articles, each director should retire, but may be reappointed, at least at every third AGM as well as at the first AGM following appointment. Also, after nine years, a director must offer himself/herself for reappointment annually. In 2009, biographical details of the directors submitted for reappointment at the AGM were supplied in the shareholders' circular and notice of the 2009 AGM. A.7.1 – Compliant

Policy on other board appointments

2.13 The board's policy on other directorships is designed to ensure that directors remain able to discharge their responsibilities to the company. This applies to the Chairman, executive directors and non-executive directors. The policy is set out in paragraphs 2.13.1 to 2.13.3 below. Any request for an exception to this policy is considered on its merits.
A.4.4/A.4.5 – Compliant

2.13.1 As specified in the letters of appointment of the non-executive directors, any proposed appointment to the board of another company will require the prior approval of the board.
A.4.4 – Compliant

2.13.2 In accordance with the Combined Code, an executive director will be permitted to hold one non-executive directorship (and to retain the fees from that appointment) provided that the board considers that this will not adversely affect his executive responsibilities. The board would not permit an executive director to take on the chairmanship of a FTSE 100 company.
A.4.5 – Compliant

2.13.3 The company's policy is that a non-executive director should have sufficient time to fulfil his/her duties to the company, including chairing a committee. The board will consider all requests for permission for other directorships carefully, having regard to certain principles. A non-executive director would not be expected to hold more than four other material non-executive directorships.
If he/she holds an executive role in a FTSE 350 company, he/she would not be expected to hold more than two other material non-executive directorships. Only one FTSE 100 company, or two FTSE 350 companies, should be chaired at any given time. A.4.4 – Compliant

Performance evaluation

2.14 In November 2009, the board completed the seventh evaluation of its performance and that of its committees and individual directors. The Chairman was primarily responsible for this evaluation and submitted a questionnaire to all directors. This contained questions on different aspects of the operation of the board and its committees and the performance of individual directors. The senior independent director was responsible for collating comments on the Chairman's performance. A summary of the evaluation was presented to the board in December 2009 which showed that the board, its committees and individual directors were working effectively. The evaluation indicated areas for improvement, but no significant problems were identified. A performance evaluation of the board, the board committees and individual directors will continue to be conducted annually and the process for such review will continue to be reviewed by the board in order to optimise the process.
A.6.1 – Compliant

Conflicts of interest

2.15 The company has procedures in place to enable the board to review and authorise conflict situations as appropriate. The board has fully and properly complied with all the requirements of these procedures, which are in accordance with the company's articles, since 1 October 2008 and reviews the register of conflicts annually. In addition, details of potential conflicts previously approved by the board are also reviewed annually to ensure that the basis of the approval and the conditions attached thereto remain valid.

Training

2.16 Appropriate training and briefing is provided to all directors on appointment to the board, taking into account their individual qualifications and experience. Ongoing training is arranged to suit their individual needs (including environmental, social and governance training as appropriate) and the Company Secretary, reporting to the Chairman, is responsible for identifying appropriate training courses for directors. Update sessions are arranged for the board as necessary.
A.5.1 – Compliant

3 Report on the audit committee

3.1 Meeting attendance:

	Audit committee meetings
Total number of meetings in 2009	4
Manjit Wolstenholme (Chair)	4/4
Rob Anderson[1]	3/3
Robert Hough	4/4
John Maxwell[2]	1/1

[1] Appointed as a director on 2 March 2009.
[2] Resigned as a director on 6 May 2009.

C.3.1 – Compliant

3.2 The committee makes recommendations to the board, for the board to put to shareholders in general meeting, in relation to the appointment, reappointment and removal of the auditors and approves their remuneration and terms of engagement. It reviews and monitors the independence and objectivity of the auditors and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.
It develops and implements policy on the engagement of the auditors to supply non-audit services and reports to the board (identifying any matters in respect of which it considers that action or improvement is needed) and makes recommendations as to the steps to be taken. It monitors the integrity of the financial statements of the group and the formal announcements relating to the group's financial performance, reviewing significant financial reporting judgements contained in them. It also reviews the group's internal and external whistleblowing policy having established an independent external confidential reporting line in 2008. An annual report is prepared by the external provider which is reviewed by the committee. The committee is also responsible for the annual review of the register of benefits offered to directors in accordance with the company's code of practice on benefits.
C.3.2/C.3.3/C.3.4 – Compliant

3.3 Manjit Wolstenholme took over the chair of the committee on her appointment to the board in 2007. She is a chartered accountant and is considered to have the recent and relevant financial experience required by the provisions of the Combined Code. The other members of the committee have a wide range of business and financial experience which is evidenced by their biographical summaries on page 49. C.3.1– Compliant

3.4 From 1 January 2009, following the appointment of a Head of Audit & Risk, the internal audit function has been provided by an in-house team. The committee formally agrees the internal audit plan once a year and reviews regular reports on the activity of the internal audit function. The internal audit function reports to the committee which helps to ensure the function's independence from group management and ensures that appropriate action is taken in response to audit findings. C.3.5 – Compliant

3.5 At the invitation of the committee, meetings are attended by both the Head of Audit & Risk and the external auditors as required and by the Finance Director and the group Financial Controller.

3.6 At its February and July meetings the committee had a separate session with the group's auditors PricewaterhouseCoopers LLP ('PwC'), without any executive director or employee of the company or group being present. The Chair of the committee meets separately with the Head of Audit & Risk on a quarterly basis. This gives members of the committee the opportunity to raise any issues, including any issues on the final or interim results of the group directly with PwC and the Head of Audit & Risk. C.3.2 – Compliant

3.7 PwC have been the company's auditors for many years. The audit committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. Accordingly, it has not considered it necessary to date to require the firm to tender for the audit work. The external auditors are required to rotate the audit partners responsible for the group and subsidiary audits every five years and the current lead audit partner has been in place for five years. A replacement lead audit partner has been identified and agreed for the 2010 audit. There are no contractual obligations restricting the company's choice of external auditor.

3.8 The committee is conscious of the need to ensure that the auditors are, and are perceived to be, independent and its work relating to this is summarised in paragraphs 3.8.1 to 3.8.5 below.
C.3.2 – Compliant

3.8.1 PwC provide the committee with a letter of independence, which is regularly updated and considered by the committee.
C.3.2 – Compliant

3.8.2 The committee has adopted a policy on the appointment of staff from the auditors to positions within the various group finance departments. It grades appointments into four categories and sets out the approvals required. Neither a partner of the audit firm who has acted as engagement partner, the quality review partner, other key audit partners or partners in the chain of command, nor a senior member of the audit engagement team, may be employed as group Finance Director, group Financial Controller or a divisional finance director. C.3.2 – Compliant

3.8.3 The company has a formal policy on the use of auditors for non-audit work. This policy is reviewed once a year. C.3.2 – Compliant

3.8.4 The main elements of the policy are as follows: The award of non-audit work to the auditors is managed in order to ensure that the auditors are able to conduct an independent audit and are perceived to be independent by the group's shareholders and other stakeholders. The performance of non-audit work by the group's auditors is minimised and work is awarded only when, by virtue of their knowledge, skills or experience, the auditors are clearly to be preferred over alternative suppliers. The group maintains an active relationship with at least two other professional accounting advisers. The nature and cost of all non-audit work awarded to the group's external auditors for the period since the last meeting and for the year to date is reported to each meeting of the audit committee, together with an explanation as to why the auditors were the preferred supplier. No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the auditors without the prior approval of the chair of the audit committee, such approval to be given only in exceptional circumstances. The chair of the audit committee must approve in advance any single award of non-audit work with an aggregate cost of £250,000 or more. The auditors may not perform internal audit work. C.3.2 – Compliant

3.8.5 In 2009, the committee regularly considered a schedule of non-audit work carried out by PwC. Work carried out by PwC for the group in 2009 fell broadly into four categories: fees payable for the audit of the parent company and consolidated financial statements; audit of the company's subsidiaries pursuant to legislation; other services pursuant to legislation and tax services; and advice on the establishment of an Employer Funded Retirement Benefit Scheme. Details of work carried out by PwC on behalf of the remuneration committee is summarised in paragraph 6.7 on page 67. Fees paid to PwC in 2009 are set out on page 94 in note 4 of the notes to the financial statements.
C.3.7 – Compliant

3.9 The committee has formally considered its effectiveness in 2009. The overall view was that the committee was working effectively.
A.6.1 – Compliant

4 Report on the nomination committee

4.1 Meeting attendance:

	Nomination committee meetings
Total number of meetings in 2009	2
John van Kuffeler (Chair)	2/2
Peter Crook	2/2
Rob Anderson[1]	1/1
Robert Hough	2/2
John Maxwell[2]	1/1
Manjit Wolstenholme	2/2

[1] Appointed as a director on 2 March 2009.
[2] Resigned as a director on 6 May 2009.

4.2 The committee's remit is to assist the board in the process of the selection and appointment of any new director and to recommend to the board the appointment of any new director. It keeps under review the structure, size and composition of the board. It considers and, if appropriate, recommends to the board the extension of the term of office of a non-executive director. It considers the succession plan annually and reports to the board that it has done so. There is a formal schedule of matters reserved to it for decision.
A.4.1 – Compliant

4.3 The committee initiated a search in 2008 for a new non-executive director to replace John Maxwell, who retired from the board at the AGM on 6 May 2009. The committee reported formally to the board on the candidates identified by the search and recommended the appointment of Rob Anderson as a non-executive director, who was appointed as a director on 2 March 2009. His appointment was approved at the AGM on 6 May 2009. The committee prepared a description of the role and capabilities required for the appointment and managed the selection process with the help of an external search consultant.
A.4.2/A.4.6 – Compliant

4.4 At its meeting in December 2009, the committee reviewed a high level succession plan for the executive directors, the Chairman and the persons discharging managerial responsibility. The Chief Executive agreed to develop a detailed succession plan based on the high level plan to include the identification of candidates who are or would be capable, with training and development, of filling the roles identified, for review and approval by the committee by mid-2010. The committee intends to report to the board on the detailed succession plan before the end of 2010.

4.5 At its meeting in February 2010, the committee carried out a review of the performance of Robert Hough and recommended to the board a further extension to his term of office. At a board meeting in February 2010 his term of office was extended to 31 January 2013, subject to his reappointment at the AGM on 5 May 2010.

5 Report on the remuneration committee

5.1 Full details of the composition and work of the remuneration committee are contained in paragraph 5 on page 66 of the directors' remuneration report. B.1/B.2 – Compliant

5.2 Pursuant to its terms of reference, the committee considers the framework of executive remuneration and makes recommendations to the board. It determines the specific remuneration packages and conditions of service of the Chairman, the executive directors and the Company Secretary, including their service agreements. It also monitors the level and structure of the remuneration of the most senior management below board level within the company. No director is involved in determining his/her own remuneration.

6 Report on the executive committee

The committee normally meets at least once a week, and more frequently as required, and deals with matters relating to the running of the group, other than those matters reserved to the board and those specifically assigned to the other committees. There is a formal schedule of matters reserved to it for decision, which was updated on 22 October 2009.

7 Report on the risk advisory committee

7.1 Meeting attendance:

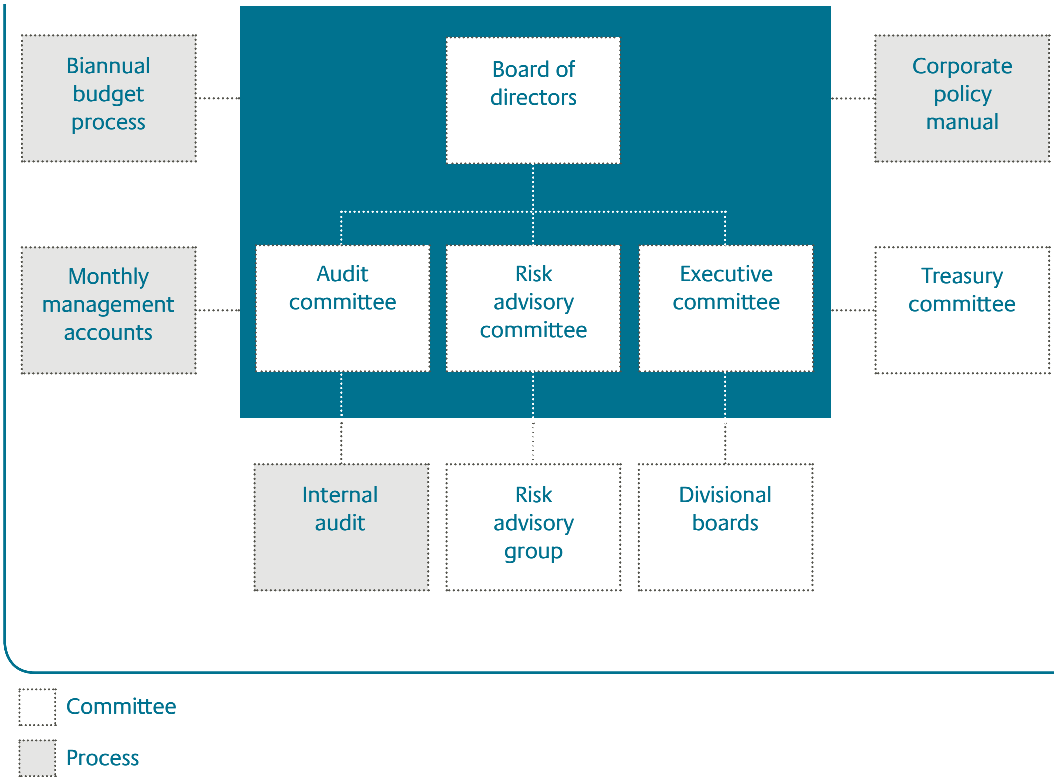
	Risk advisory committee meetings
Total number of meetings in 2009	3
Rob Anderson (Chair)[1]	2/2
Andrew Fisher	3/3
Robert Hough[2]	3/3
John Maxwell[3]	1/1
Manjit Wolstenholme	3/3

[1] Appointed as a director on 2 March 2009 and Chairman of the committee with effect from 6 May 2009.
[2] Chairman of the committee until 6 May 2009.
[3] Resigned as a director on 6 May 2009.

7.2 The group's risk management framework is overseen by the risk advisory committee on behalf of the board. The risk advisory committee is chaired by Rob Anderson and comprises the Finance Director and the two other independent non-executive directors. Its function is to keep under review the group's risk management framework, and to report to the board on its work. It reviews the group and divisional risk registers, considers the most important risks facing the group and is responsible for reviewing the group's Internal Capital Adequacy Assessment Process ('ICAAP') prior to submission to the board.

7.3 The risk advisory committee delegates a number of responsibilities to the risk advisory group which comprises the executive directors, the General Counsel and Company Secretary, the group Financial Controller and the Head of Audit & Risk. The deputy company secretary and divisional risk managers also attend the meetings by invitation. The risk advisory group considers the extent and nature of the risks facing the group, the extent and categories of risk which are acceptable to bear, the likelihood of the risk materialising, the group's ability to mitigate any risk, and the costs of operating particular controls relative to the benefits obtained. It also reviews the risk registers prepared by the divisional risk committees four times a year, challenging and making changes where appropriate. It submits a schedule of key risks, the divisional key risk registers and the ICAAP to the risk advisory committee for review.
C.2.1 – Compliant

7.4 Throughout 2009, the risk advisory committee has overseen the continuing enhancement of the risk management framework across the group. The main development has been the implementation of a more detailed and formal risk appetite framework which builds on previous work to implement enhanced risk assessment and monitoring tools within the group. The new framework allows the risk advisory committee and management to share a clear understanding of divisional risk appetite and enables effective monitoring and oversight by the committee and the board.



8 Accountability

The board presents the company's position and prospects in as clear a way as possible, both by means of the annual report and in circulars and reports to shareholders. These documents are posted on the company's website at www.providentfinancial.com. Announcements made by the company to the London Stock Exchange are also posted on the company's website.

9 Internal control

9.1 The board is responsible for the company's system, of internal control and for reviewing its effectiveness. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and any system can provide only reasonable and not absolute assurance against material misstatement or loss.
C.2.1 – Compliant

9.2 The key elements of the internal control system, including the financial reporting processes, which has been established in accordance with the revised Guidance for Directors on the Combined Code and the Financial Services Authority's Disclosure and Transparency Rules, are set out in paragraphs 9.2.1 to 9.2.5 below. C.2 – Compliant

9.2.1 In December each year, the board approves detailed budgets and cash flow forecasts for the year ahead. It also approves outline projections for the subsequent four years. An update to the budget is performed in June each year. Actual performance against budget is monitored in detail within the group's management accounts and this is supplemented with a rolling forecast of the full year outturn. The group's management accounts form part of the board papers for each meeting. The company reports to shareholders on a half-yearly basis.
C.2.1 – Compliant

9.2.2 The audit committee keeps under review the adequacy of internal controls (including financial, operational and compliance controls) in conjunction with the internal audit function and reports to the board regularly. An annual programme of work which targets and reports on higher risk areas is carried out by the internal audit function. The operation of internal financial controls is monitored by regular management reviews, including a procedure by which each division certifies compliance quarterly. C.2.1 – Compliant

9.2.3 The risk advisory committee considers the nature and extent of the risks facing the group, keeps them under review, reviews the framework to mitigate such risks, and notifies the board of changes in the status and control of risks. It reports to the board on a regular basis. In addition, the risk advisory group formally reviews the divisional risk registers four times a year. It reports to the risk advisory committee.
C.2.1 – Compliant

9.2.4 The board requires the divisions to operate in accordance with the group corporate policies and divisions are obliged to certify compliance on a biannual basis.
C.2.1 – Compliant

9.2.5 A six-weekly finance forum chaired by the group Finance Director and attended by divisional finance directors and senior finance management including the heads of tax, treasury and risk, reviews and provides oversight of the key financial matters of the group. The group finance function establishes the process and timetable for financial reporting and consolidation activities and identifies changes to accounting and financial reporting standards.

9.3 In accordance with the revised Guidance for Directors on the Combined Code, the board has reviewed the effectiveness of the group's framework of internal controls during 2009. The process for identifying, evaluating and managing the significant risks faced by the group, as set out above, was in place throughout 2009 and up to 2 March 2010 and no significant failings or weaknesses were identified during this period. The board has also, whenever appropriate, ensured that necessary actions have been, or are being taken, to remedy significant failings or weaknesses identified from the review of the effectiveness of internal control.
C.2.1 – Compliant

10 Relations with shareholders

10.1 Members of the board meet with institutional shareholders on a regular basis. The Chairman is responsible for ensuring that appropriate channels of communication are established between directors and shareholders and ensuring that the views of the shareholders are made known to the board. An investor relations report is considered by the board at each meeting and independent reviews of shareholder views are commissioned annually and reviewed by the board.
D.1.1/D.1.2 – Compliant

10.2 The company encourages private investors to attend the AGM. The chair of each of the board committees is available to answer questions from shareholders at the AGM and there is an opportunity for shareholders to ask questions on each resolution proposed.
D.2.3 – Compliant

10.3 At the 2009 AGM, details of proxy votes cast on each resolution were made available to shareholders and other interested parties by means of an announcement to the London Stock Exchange and on the company's website.
D.2.2 – Compliant

10.4 At the 2009 AGM, the company proposed separate resolutions on substantially separate issues and will continue to do so. It is the company's policy to give shareholders in excess of 20 working days' notice of the AGM.
D.2.1/D.2.4 – Compliant

10.5 The company operates a dividend reinvestment plan which enables all shareholders to elect to receive their dividends in shares should they wish to do so.

11 Directors' responsibilities in relation to the financial statements

11.1 The following statement, which should be read in conjunction with the independent auditors' report on page 126, is made to distinguish for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.
C.1.1 – Compliant

11.2 The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

11.3 The Companies Act 2006 requires the directors to prepare financial statements for each financial year. The directors have prepared the financial statements in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and the group for that period.

11.4 In preparing these financial statements, the directors are required to (i) select suitable accounting policies and then apply them consistently; (ii) make judgements and estimates that are reasonable and prudent; (iii) state that the financial statements comply with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and (iv) prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

11.5 The directors are also required by the Disclosure and Transparency Rules of the Financial Services Authority to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the group and company.

11.6 The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

11.7 The Annual Report & Financial Statements 2009 will be published on the company's website in addition to the normal paper version. The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

12 Disclosure and Transparency Rules statement

Each of the directors, whose names and functions are set out on pages 48 to 49, confirms that, to the best of his/her knowledge and belief, the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group and company; and that the directors' report contained in this Annual Report & Financial Statements 2009 includes a fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties it faces.

13 Statement of compliance with the Combined Code

The company complied with the main and supporting principles set out in Section 1 of the Combined Code throughout 2009.

Approved by the board on 2 March 2010 and signed by order of the board.

Kenneth J Mullen
General Counsel and Company Secretary
2 March 2010

Dear Shareholder

I am pleased to introduce this report after succeeding John Maxwell as Chairman of the remuneration committee at the 2009 AGM. I would like to thank John Maxwell for his role in chairing the committee for the last six years.

Following the issues surrounding the directors' remuneration report at the 2009 AGM, and to ensure that our 2010 remuneration policy takes due account of investors' views, I met with several of our major shareholders during the summer of 2009. The purpose of these meetings was to better understand the key areas of concern in relation to our 2009 remuneration policy so that these factors could be taken into account when setting our 2010 policy.

In addition, the committee appointed new independent advisors, Hewitt New Bridge Street on 1 June 2009.

The 2010 remuneration policy has been designed to address key concerns raised by investors while still providing a competitive total remuneration package (given our size and sector) with targets set to reflect our key challenges (i.e. balancing growth, credit quality and collections capacity in the current economic environment). Furthermore, the committee is very mindful of the need to appropriately incentivise and retain our high performing team at a time when there is an acute shortage of executives with a track record of delivering outstanding performance in the financial sector, particularly during the recent challenging economic conditions.

Set out below is a summary of our proposed 2010 remuneration policy:

- Basic salary: No increases are to be awarded to executive directors for 2010;
- Annual cash bonus: Maximum annual bonus opportunity will be restricted to 120% of salary for the Chief Executive and 100% of salary for other executive directors. These opportunities are significantly below the new policy communicated to investors in our directors' remuneration report last year (150% of salary for the Chief Executive and 125% of salary for other executive directors) and reflect a continuation of the scaled back bonus opportunity that was introduced for 2009.

  The performance targets for the annual cash bonus plan are also to be toughened for 2010 at the top end of the performance range, resulting in a greater out-performance of budget being required for a maximum bonus award.

  25% of any annual cash bonus earned will continue to be compulsorily deferred into shares for three years with the continuing option to defer a further 25% for the purposes of receiving an award under the Performance Share Plan ('PSP').
- Long-term incentives: Awards will continue to be made under the Long-Term Incentive Scheme ('LTIS') and PSP, with PSP awards being subject to a personal investment in shares through a deferral of any annual cash bonus.

  PSP awards will continue to be made on the basis of up to two matching shares for each deferred share with vesting subject to earnings per share ('EPS') targets, where the range of targets has been toughened so that it is consistent with the EPS targets set for LTIS awards.

  LTIS awards will continue to be made at 200% of salary to executive directors subject to an equal split of EPS and total shareholder return ('TSR') targets.

In terms of total target quantum, the above policy, for example, places the Chief Executive slightly above median in terms of base pay, around median in terms of total cash (by virtue of a bonus opportunity that, when expressed as a multiple of salary, is below median) and around upper quartile in relation to the total package opportunity. This upper quartile total remuneration positioning is considered appropriate since the package is heavily weighted towards long-term performance and is contingent on a significant personal investment in shares. Furthermore, the long-term element of the package is subject to what are considered demanding earnings growth and total return targets given current market conditions. The peer groups against which Provident Financial has been benchmarked comprise a group of financial companies and a general group of companies of broadly similar size.

In considering the overall positioning of the package, the committee also took into account the calibre and experience of the Chief Executive and other executive directors, and the financial performance delivered by the company under his leadership. In particular, the committee recognised that since his appointment, the company's TSR has been in the upper quartile when compared to the FTSE All Share Financial Services Sector and the FTSE 250.

FInally, during the year, the committee considered the company's remuneration practices in light of the recommendations set out in the Financial Services Authority Code and in the Walker Review. The committee was satisfied that: (i) the weighting on long-term performance (through the requirement to defer part of any annual cash bonus award and participation in the PSP and LTIS) that exists in the current remuneration packages for the executive directors is appropriate for a financial company with our current risk profile; and (ii) does not encourage undue risk-taking given the internal controls operated by the company and the balanced approach that is taken to target setting. The committee intends to keep the company's remuneration policy under review in light of further best practice requirements and, indeed, will reappraise the current policy in light of any revisions to the Combined Code that take place in 2010.

Robert Hough
Chairman of the remuneration committee
2 March 2010

Directors' remuneration report

Robert Hough
Chairman of the remuneration committee

Contents

> The company has taken into account the views of its major shareholders through an extensive consultation process in formulating its 2010 remuneration policy.

Remuneration at a glance

1 Remuneration components 2009 – Fixed

Director's name	Salary[1] £000	Benefits in kind £000	Performance Share Plan dividends £000	Increase in transfer value of pension benefits accrued £000	Total £000
Peter Crook	587	39	92	225	943
Andrew Fisher	419	44	72	164	699
Chris Gillespie	404	35	69	150	658

[1] Reflects salary sacrifice arrangement in respect of the director's contribution to the pension scheme since 1 April 2009.

2 Remuneration components 2009 – Variable

Director's name	Annual bonus £000	Total £000
Peter Crook	–	–
Andrew Fisher	–	–
Chris Gillespie	–	–

Director's name	Performance Share Plan awards[2]	Conditional share awards
Peter Crook	31,755 basic 63,510 matching	136,771
Andrew Fisher	23,349 basic 46,698 matching	97,533
Chris Gillespie	22,415 basic 44,830 matching	94,170

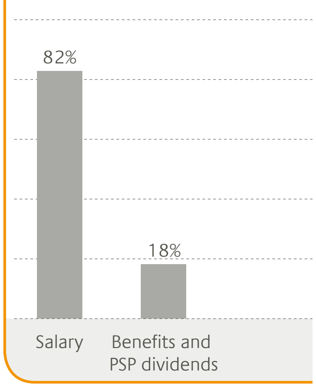
[2] Based on a waiver of 50% of the annual cash bonus awarded in respect of 2008.

3 Remuneration components 2009 – Summary

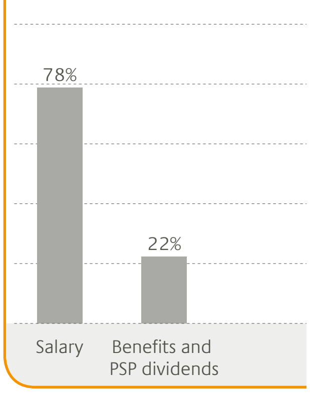
Element	Objective	Value	Performance targets
Base salary	– To recognise role and responsibilities	– To reflect experience and market competitiveness	– Not applicable
Benefits	– To provide benefits commensurate with role	– Cost of permanent health insurance, private medical insurance, fully expensed car/cash alternative	– Not applicable
Annual bonus	– To link total cash reward to achievement of company and personal objectives	– Maximum 120% (CEO) and 100% (other executive directors) of basic salary	– Based on budgeted EPS and divisional profits (where applicable) (80%), personal objectives (20%)
Pension	– To provide funding for retirement	– Pension credit of 35% of salary per annum and life cover	– Not applicable
Performance shares	– To link management interests to the long-term interests of shareholders	– Based on deferral of up to 50% of annual cash bonus plus matching awards	– EPS relative to RPI over a three-year period
Conditional share awards	– To align management's long-term interests with shareholders' interests	– Up to 200% of basic salary	– Absolute TSR and relative EPS performance over a three-year period

Executive remuneration (excluding pension)

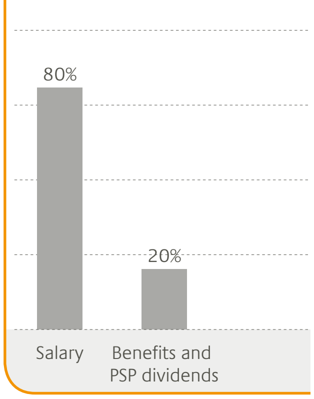
Peter Crook



Andrew Fisher



Chris Gillespie



Remuneration explained

4 Introduction

This directors' remuneration report complies with the Companies Act 2006 ('the Companies Act'), Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority. The company also followed the requirements of the Combined Code on Corporate Governance (June 2008) ('the Combined Code'). This report will be subject to an advisory vote at the AGM of the company to be held on 5 May 2010.

5 The remuneration committee

5.1 The remuneration committee consists of three non-executive directors, each of whom is, in the opinion of the board, independent when assessed against the criteria set out in the Combined Code. The attendance of each member at meetings of the remuneration committee is shown below and the terms of reference of the remuneration committee are available on the company's website at www.providentfinancial.com.

	Remuneration committee meetings
Total number of meetings in 2009	7
Robert Hough (Chair)[1]	7/7
Rob Anderson[2]	5/5
John Maxwell[3]	1/2
Manjit Wolstenholme	7/7

1 Appointed chairman with effect from 6 May 2009.
2 Appointed as a director on 2 March 2009.
3 Resigned as a director and chairman of the remuneration committee on 6 May 2009.

5.2 Pursuant to its terms of reference, the committee considers the framework of executive remuneration and makes recommendations to the board. It determines the specific remuneration packages and conditions of service of the Chairman, the executive directors and the Company Secretary, including their service agreements. It also monitors the level and structure of the remuneration of the most senior management below board level within the company. No director is involved in determining his/her own remuneration.

5.3 The committee keeps itself fully informed of developments and best practice in the field of remuneration and it seeks advice from external advisers when it considers it appropriate. With effect from 1 June 2009, the committee appointed Hewitt New Bridge Street as its remuneration consultant in place of Towers Perrin to advise on aspects of executive director and senior management pay, including advice in relation to the 2009 remuneration policy and advice in relation to the 2010 remuneration policy which incorporated benchmark pay reports. Hewitt Associates Limited provide investment advice in respect of the company's UK pension scheme and actuarial services in respect of its Irish pension schemes. Towers Perrin has also provided advice to the committee in 2009 in respect of the 2009 remuneration policy. The committee has, in addition, been advised by Eversheds LLP (who have advised the company on various employment and commercial matters) on the operation of the company's share schemes. In all cases the advisers were instructed by the secretary on behalf of the committee. The Chairman and Chief Executive of the company normally attend and speak at meetings of the committee (other than when their own remuneration or any matter relating to them is being considered). Ken Mullen, General Counsel and Company Secretary, is secretary to the committee and attended all the meetings of the committee in 2009. He also provided legal and technical support to the committee.

6 Remuneration policy

6.1 The committee considers it very important that there should be an appropriate proportion of fixed and variable pay. The remuneration policy operated by the committee during the year and, subject to ongoing review by the remuneration committee, to be applied for the following financial year and for future financial years, is based on the need to attract, reward, motivate and retain executive directors in a manner consistent with the long-term accumulation of value for shareholders and achievement of the company's strategic objectives. The committee is also conscious of the need to avoid paying more than is reasonable for this purpose and therefore the policy of the committee is to pay remuneration which is competitive, with a significant proportion subject to performance.

6.2 The executive directors' remuneration consists of a basic salary, an annual cash bonus (subject to performance conditions) and other benefits including participation in the company's pension scheme. Additionally, they may participate in a performance share plan (which necessitates the waiver of a minimum of 25% of the annual cash bonus award), a long-term incentive scheme, both of which are subject to performance conditions, and an employee savings-related share option scheme which is not subject to performance conditions (executive directors participate on the same terms as other eligible employees of the group). In 2009, they also received a one-off exceptional bonus (which was deferred and paid in the form of shares) in recognition of the company's exceptional performance in 2008. The remuneration policy is designed to ensure that a significant proportion of the executive directors' remuneration is linked to performance, through the operation of the annual cash bonus and the share incentive schemes. For 2009, variable remuneration accounted for over half of the fair value of executive remuneration (excluding pension) based on the policy that was operated and in 2010 the revised remuneration policy is expected to ensure that approximately two thirds of the incentive opportunity is variable as it is based on the long-term performance of the company which the committee considers appropriate. The committee also considers the pay and conditions elsewhere in the group when setting pay by reviewing the remuneration proposals and budgets of the divisions at its meeting in January of each year.

6.3 The committee normally reviews the executive directors' remuneration annually. This review takes into account individual performance, experience and market competitiveness. Following the AGM in May 2009, the committee reviewed the salaries and annual cash bonus entitlements of the executive directors and the committee agreed not to implement the proposed increase in the annual cash bonus which was set out in the Annual Report and Financial Statements 2008. Accordingly, the maximum bonus opportunity in respect of 2009 and 2010 is restricted to 120% of salary for the Chief Executive and 100% of salary for the other executive directors. Following a benchmarking exercise carried out by Hewitt New Bridge Street in November 2009, the committee also agreed that the executive directors' salaries for 2010 would remain at the same level as in 2009:

Director's name	£
Peter Crook	610,000
Andrew Fisher	435,000
Chris Gillespie	420,000

6.4 The fees for the non-executive directors, other than the Chairman, are fixed by the board and are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the company. In January 2010 the board requested Hewitt New Bridge Street to carry out a benchmarking exercise and as a consequence decided to defer any increase in the fees for the non-executive directors for a year. Full details of fees for non-executive directors in 2009 and details of their business expenses, which are reimbursed by the company, with 2008 comparative figures where relevant, are set out in the table of directors' remuneration in paragraph 7 on page 71.

6.5 The fees for the Chairman are fixed by the remuneration committee, and in January 2010 the committee requested Hewitt New Bridge Street to carry out a benchmarking exercise and as a consequence decided to defer any increase in the Chairman's fees and benefits for a year. Full details of the Chairman's fees in 2009, with 2008 comparative figures, are set out in the table of directors' remuneration in paragraph 7 on page 71.

Cash bonuses

6.6 An annual cash bonus is payable, subject to the satisfaction of performance conditions. The bonus is calculated as a percentage of salary. The purpose of the bonus scheme is to provide a meaningful cash incentive for executive directors which is clearly focused on improving the company's performance and aligns, so far as is practicable, shareholder and executive director interests. The committee considers corporate performance on environmental, social and governance ('ESG') issues when setting the performance conditions for cash bonuses and will use its discretion to ensure that where appropriate, the management of ESG risks are reflected in the rewards granted to directors and senior management and that they do not inadvertently promote irresponsible behaviour.

6.7 Executive directors are eligible for annual cash bonuses by reference to the company's audited earnings per share (as defined in the bonus scheme) and divisional profits (where appropriate) which cannot exceed 80% of the maximum bonus opportunity, and achievement of specific personal objectives, which cannot exceed 20% of the maximum bonus opportunity. In exceptional circumstances, the committee may make such adjustments to the calculation of earnings per share as it considers fair and reasonable. The committee carries out a detailed review of the computations involved and ensures that the rules are applied consistently. The company's auditors are asked to perform agreed-upon procedures on behalf of the committee on the calculations. The committee recognises that the group has achieved a good profit performance in an extremely challenging environment in which many lenders have struggled. Nonetheless, profits are slightly short of the stretching targets set under the 2009 annual cash bonus scheme and as a consequence no bonus has been awarded to the executive directors in respect of 2009.

6.8 The performance targets to apply for 2010 will be as follows:

Measure	Maximum bonus opportunity
Group EPS[1]	80%
Personal objectives	20%

[1] 40% of the maximum bonus opportunity for Chris Gillespie relates to the profit before tax of the consumer credit division and 40% to Group EPS.

6.9 EPS is the key internal measure of financial performance as it is the broadest measure of the company's financial performance and is aligned to the shareholder base which is weighted towards longer-term income investors.

6.10 For 2010, the personal objectives percentage of the annual cash bonus entitlement will only become payable if 95% of the 2010 budgeted EPS is achieved. Personal objectives are set to reflect the roles and responsibility of each executive director.

6.11 The 2010 EPS targets are set as a challenging sliding scale. The actual proportion of 2010 budgeted EPS that needs to be delivered for any bonus to be earned is 95% of budgeted EPS with the full group EPS bonus becoming payable at 105% of budgeted EPS. Bonus is earned on a straight line basis from 0% being payable for delivery of 95% of budgeted EPS to 60% of the group EPS element of the annual cash bonus at budgeted EPS with a straight line also operating between budgeted EPS and the maximum at 105% of budgeted EPS. A similar principle applies to the divisional financial target set for Chris Gillespie.

6.12 Bonuses do not form part of pensionable earnings.

Share incentive schemes

6.13 The grant of awards under share incentive schemes to executive directors and senior management is normally considered once in each year after the announcement of the company's results in accordance with a formula determined by reference to salary. The company has three schemes: the Provident Financial Executive Share Option Scheme 2006 ('the ESOS'), the Provident Financial Long Term Incentive Scheme 2006 ('the LTIS') and the Provident Financial Performance Share Plan ('the PSP'). No further options can be granted under the Provident Financial plc Senior Executive Share Option Scheme (1995) or the Provident Financial plc Unapproved Senior Executive Share Option Scheme (1996). The committee reviewed the long-term incentives for the executive directors and senior management in 2007, and as a consequence, decided to simplify the share incentive schemes by ceasing to grant options and instead making conditional share awards to executive directors and senior management under the LTIS and PSP, in line with prevailing market practice and in recognition that conditional share awards (linked to a deferral of annual bonus in the case of the PSP), provide greater alignment with shareholders' interests.

LTIS

6.14 For conditional share awards made in 2009, the committee set a performance target based on absolute TSR and real earnings per share growth, whereby 50% of the award vests if the company's annualised growth in earnings per share is equal to or greater than annualised growth in RPI plus 8% over a period of three consecutive financial years (12.5% of the award will vest if the company's annualised growth in earnings per share over a period of three consecutive financial years is equal to annualised growth in RPI plus 3% with vesting on a straight-line basis in between these levels) and the remaining 50% of the award vests if the company's annualised TSR is at least 15% over a period of three consecutive financial years (12.5% of the award will vest if the company's annualised TSR is at least 10% over a period of three consecutive financial years, with vesting on a straight-line basis in between these two levels).

Participation is currently limited to executive directors, certain members of senior management and other employees by invitation. Following approval at the 2009 AGM, the committee removed the discretion of the committee to grant conditional share awards pursuant to the LTIS in exceptional circumstances up to a maximum of 200% of a participant's basic salary and increased the normal limit from a maximum of 150% to a maximum of 200% of a participant's basic salary irrespective of whether there are exceptional circumstances.

Consistent with the recent shareholder consultation exercise, in 2010, the performance targets for the LTIS will remain unchanged with 50% vesting based on challenging EPS targets and 50% dependent on absolute TSR targets. The actual range of the EPS targets is as follows:

Annualised growth in EPS	Percentage vesting (of EPS part of award)
Below RPI + 3%	0%
RPI + 3%	25%
RPI + 8%	100%

The actual range of TSR targets is as follows:

Annualised TSR	Percentage vesting (of TSR part of award)
Below 10%	0%
10%	25%
15%	100%

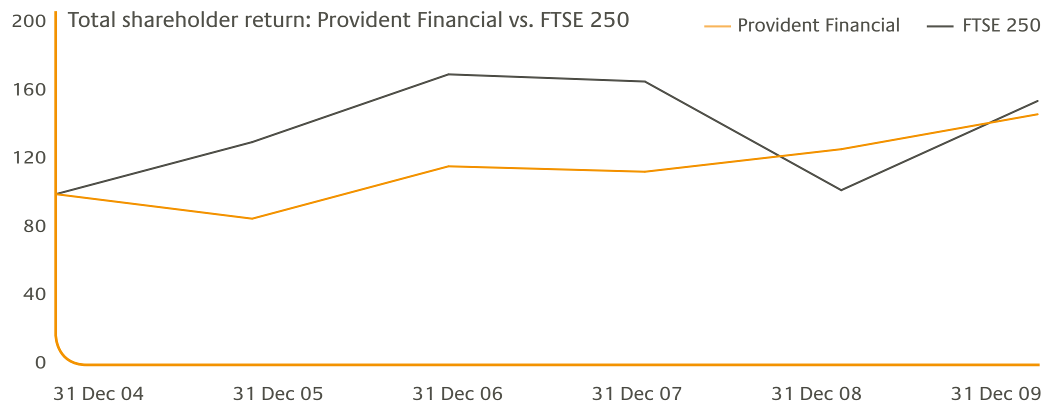
EPS and TSR are felt to provide an appropriate balance between internal and external performance measures.

EPS is the key internal long-term financial measure used by the company and, with regard to TSR, delivering returns to shareholders remains the company's key, over arching, long-term objective.

While some investors have a preference for relative TSR, absolute TSR was only adopted by the company in 2009 and the committee did not therefore believe it was appropriate to change the performance measures this year. Additionally, the committee continues to believe that there are doubts as to the suitability of the constituents of the FTSE 250 as an appropriate benchmark at the current phase of the cycle (this being the reason for the change to absolute TSR made in 2009) and the general financial sector is a myriad of companies, none of whom are considered to be directly comparable to the company and many of whom continue to experience above average historic levels of volatility. However, the committee will continue to keep this measure under review.

In terms of the degree of stretch in the target ranges, the committee believes that the current EPS range remains demanding, particularly in light of general economic conditions.

In relation to the absolute TSR targets for 2009 and 2010, three year annualised median TSR performance delivered from FTSE 250 companies since 1 January 1997 has been 9.8%. Given the current economic uncertainty, setting a target range of 10% to 15% is considered by the committee to be a challenging target.



Source: DataStream as at 31 December 2009

The graph above shows the total shareholder return for Provident Financial plc against the companies comprising the FTSE 250 Index for the last five years. This index was chosen for comparison because the company has been a member of this index for the five-year period.

Offshore employee benefit trust

6.15 The rules of the LTIS, approved by shareholders previously, allows the LTIS to be operated in conjunction with any employee trust established by the company. Accordingly, the company established the Provident Financial plc 2007 Employee Benefit Trust ('EBT') in Jersey on 11 September 2007 with Kleinwort Benson (Jersey) Trustees Limited acting as the first trustee of the trust. Paragraph 9.7 on page 72 gives details of share subscriptions made by the trust for the purposes of satisfying awards made under the LTIS during the course of the year.

ESOS

6.16 The ESOS contains both an HMRC approved and unapproved section. All options are subject to a performance target. For options granted in 2006 the target required the company's annual growth in earnings per share to be equal to or greater than RPI plus 3% measured over a period of three consecutive financial years, the first of which was the financial year starting immediately before the grant date. At that level 25% of the shares under option became exercisable with the option becoming fully exercisable if the company's annual growth in earnings per share was equal to or greater than RPI plus 6% measured over the three-year period. A sliding scale for vesting applied between these levels. Although basic earnings per share is generally used for the performance calculation, for 2006 awards earnings per share before Yes Car Credit closure costs was used as the starting point to avoid participants benefiting from a low start point due to the impact of the closure of the Yes Car Credit business. Earnings per share was considered to be an appropriate measure of the company's financial performance, aligned the interests of the participants with shareholders and complemented the use of TSR in the LTIS. Maximum awards were normally limited to 100% of salary. No executive options have been granted at a discount and no options were granted in 2009.

PSP

6.17 Participation in the PSP includes executive directors who may elect to defer up to 50% (with a minimum of 25%) of their annual cash bonus, and other eligible employees who waive up to 50% or 30%, depending on their level of seniority, of their annual cash bonus for a period of three years. In return, participants receive a basic award of shares equal to the value of their waived bonus, together with an equivalent matching award (on the basis of one share for each share acquired by a participant pursuant to their basic award) which is subject to a performance condition. Historically, matching awards vested if the company's average annual percentage growth in earnings per share was equal to or greater than the average annual increase in RPI plus 3% measured over a period of three consecutive financial years, the first of which was the financial year starting immediately before the grant date of the matching award. The performance conditions were selected by the committee after consideration of other possible types of condition. The committee took the view that the use of this earnings per share target aligned, so far as is practicable, the interests of the directors and senior management with those of the shareholders. Following shareholder approval at the AGM on 6 May 2009, the committee amended the rules of the PSP to allow the grant of matching awards on the basis of up to two shares for each share acquired by a participant pursuant to their basic award. As a result, the 2009 awards to executive directors on the basis of up to two shares for each share acquired pursuant to that basic award were subject to more stretching performance targets and will only vest in full if the company's average annual percentage growth in earnings per share is equal to or greater than the average annual percentage growth in RPI plus 7% measured over a period of three consecutive financial years. If the company's average annual percentage growth in earnings per share is equal to RPI plus 3% measured over a period of three consecutive financial years, then a matching award granted on a two-for-one basis (as described above) will only vest as to 50% of the shares subject to the award (which will be the equivalent of receiving a matching award on a one-for-one basis (as described above). A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper targets.

In 2010, EPS will be retained as the sole measure but the range of targets will be stretched to provide consistency with the EPS targets under the LTIS. Coupled with the greater stretch required to achieve the full annual cash bonus as described in paragraph 6.10 on page 67, the PSP is now subject to more challenging performance conditions.

The actual range of targets is as follows:

Average annual percentage growth in EPS	Matching shares vesting
Below RPI + 3%	No vesting
RPI + 3%	One matching share
RPI + 8%	Two matching shares

Deferred bonus

6.18 Separate to the annual cash bonus referred to in paragraph 6.6, Peter Crook, Andrew Fisher and Chris Gillespie received an additional bonus in respect of the company's performance during 2008 with a value of £200,000, £150,000 and £140,000 respectively. These bonuses are deferred until March 2012 and have taken the form of an award of ordinary shares in the company which have been acquired by the trustee of the EBT, who will hold the legal title to the shares until they vest. These shares will only vest in the event that the director is still employed by the group in March 2012 (although the committee will have the discretion to allow a departing director to retain some or all of these shares). The dividends payable on the shares subject to this deferred bonus award have been waived, but an amount equal to the dividends that would have been paid on these shares had the right to receive them not been waived will also be payable in cash or in the form of additional ordinary shares in March 2012. The committee believed that a deferred bonus satisfied with shares in the company in the manner set out aligned the interests of the management with those of shareholders, recognised the company's exceptional performance in 2008 and reflected the need for such performance to be sustained in the medium-term. During the meetings with major institutional shareholders following the AGM in 2009, the inappropriateness of the deferred bonus award to the executive directors was raised. In light of these comments, the committee has agreed that this type of payment will not be made at any time in the future without prior consultation with, and agreement of, our major shareholders.

Achievement of performance targets

6.19 Assessment of the achievement of the performance targets under the company's share incentive schemes is calculated by the company, confirmed by PricewaterhouseCoopers (as required) and approved by the remuneration committee.

Savings-Related Share Option Scheme

6.20 The executive directors (together with other eligible group employees) may participate in the Provident Financial plc Employee Savings-Related Share Option Scheme (2003). Participants save a fixed sum each month for three or five years and may use these funds to purchase shares after three, five or seven years. The exercise price is fixed at up to 20% below the market value of the shares at the date directors and employees are invited to participate in the scheme. Up to £250 can be saved each month. This scheme does not contain performance conditions as it is an HMRC approved scheme designed for employees at all levels.

Other benefits

6.21 The executive directors are provided with company-owned cars and fuel (or a cash alternative), long-term disability cover under the company's permanent health insurance policy and medical cover for them and their immediate families. Benefits in kind are not pensionable.

Share ownership policy

6.22 The company has a share ownership policy for executive directors which requires them to retain half of vested shares, net of tax and exercise costs, until a beneficial shareholding equivalent to one times annual salary has been met. The committee reviews the shareholdings of the executive directors in the light of this policy once a year. All three executive directors comply with this policy.

Service agreements

6.23 The current policy is for executive directors' service agreements to provide for both the company and the director to give one year's notice. No director has a service agreement containing a liquidated damages clause on termination. In the event of the termination of an agreement, it is the current policy to seek mitigation of loss by the director concerned and to aim to ensure that any payment made is the minimum which is commensurate with the company's legal obligations.

Other directorships

6.24 The company will normally permit an executive director to hold one non-executive directorship and to retain the fee from that appointment. However, any proposed appointment will require the approval of the board. In accordance with the Combined Code, the board would not permit an executive director to take on the chairmanship of a FTSE 100 company.

Senior management remuneration

6.25 The committee considers the structure and level of pay for the most senior level of management within the group and at its meeting in January 2010 reviewed the company wide remuneration and incentive policy.

Detailed information

6.26 Full details of salaries, bonus earnings and other benefits for 2009 (with 2008 comparative figures) for the executive directors and full details of the fees and benefits paid to non-executive directors are set out in the table of directors' remuneration in paragraph 7.1 on page 71. Full details of share options are set out in the tables in paragraphs 8.1 and 9.1 on pages 71 and 72. Full details of conditional share awards under the LTIS are set out in the table in paragraph 9.2 on page 72. Full details of awards under the PSP are set out in the table in paragraph 10.1 on page 73.

Remuneration in detail

7 Directors' remuneration

7.1 The aggregate directors' emoluments during the year amounted to £2,274,000 (2008: £3,604,000) analysed as follows:

Director's name	Salary[1] £000	Annual cash bonus £000	Benefits in kind £000	Performance Share Plan dividends £000	2009 Total £000	2008 Total £000
Executive directors						
Peter Crook	587	–	39	92	718	1,284
Andrew Fisher	419	–	44	72	535	959
Chris Gillespie	404	–	35	69	508	915
Total	1,410	–	118	233	1,761	3,158

Director's name	Fees £000	Annual cash bonus £000	Benefits in kind £000	Performance Share Plan dividends £000	2009 Total £000	2008 Total £000
Chairman						
John van Kuffeler	265	–	40	–	305	285
Non-executive directors						
Rob Anderson[2]	50	–	–	–	50	–
Manjit Wolstenholme	60	–	1	–	61	58
Robert Hough	60	–	7	–	67	52
John Maxwell[3]	21	–	9	–	30	51
	191	–	17	–	208	161
Total	1,866	–	175	233	2,274	3,604

[1] Reflects salary sacrifice arrangement in respect of the director's contribution to the pension scheme since 1 April 2009.
[2] In respect of the period from 2 March 2009 to 31 December 2009.
[3] In respect of the period 1 January 2009 to 6 May 2009.

8 Share option schemes

8.1 Directors' share options at 31 December 2009 were as follows:

Director's name	Options held at 01.01.2009	Granted in 2009	Exercised in 2009	Options held at 31.12.2009	Exercise price (p)	Market price at date of exercise (p)	Range of normal exercisable dates of options held at 31.12.2009
Peter Crook	114,330[1]	–	(114,330)	–	577.25	800.00	–
	3,335[2]	–	–	3,335	491.00		01.12.2011–31.05.2012
	117,665	–	(114,330)	3,335			
Andrew Fisher	98,740[1]	–	(98,740)	–	577.25	800.00	–
	1,340[2]	–	–	1,340	716.00		01.12.2010–31.05.2011
	100,080	–	(98,740)	1,340			
Chris Gillespie	–	–	–	–	–		–
Total	217,745	–	(213,070)	4,675			

[1] Granted under the Provident Financial Executive Share Option Scheme 2006.
[2] Granted under the Provident Financial plc Employee Savings-Related Share Option Scheme (2003).

8.2 Directors' share options at 31 December 2009 are shown in the table in paragraph 8.1 above. Share options granted under the LTIS are shown separately in the table in paragraph 9.1 on page 72.

8.3 The performance condition which applied to the exercise of executive share options granted in 2006 under the ESOS required annual earnings per share growth to be equal to or greater than RPI plus 3% measured over a three-year period for 25% of the shares under option to vest. The option became fully exercisable at annual earnings per share growth equal to or greater than RPI plus 6% measured over the three-year period. These options vested in full on 7 June 2009.

8.4 The company's highest paid director in 2009 was Peter Crook, whose emoluments amounted to £718,000 (2008: Peter Crook £1,284,000). His notional gain (representing the difference between the exercise price and the market price of the shares at the date of exercise) on the exercise of share options amounted to £676,925 (2008: Peter Crook £nil).

8.5 The aggregate notional gain (representing the difference between the exercise price and the market price of the shares at the date of exercise) made by all the directors on the exercise of share options during 2009 amounted to £1,261,540 (2008: £nil).

8.6 The mid-market closing price of the company's shares on 31 December 2009 was 928p. The range during 2009 was 751.5p to 971.5p.

8.7 No consideration is payable on the grant of an option.

8.8 There were no changes in directors' share options between 1 January 2010 and 2 March 2010.

8.9 None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

9 Long Term Incentive Scheme

9.1 Awards under the LTIS in 2006, which were granted as nil cost options, were as follows:

Director's name	Date of award	Awards held at 01.01.2009	Exercised in 2009	Awards held at 31.12.2009	Exercise price (p)	Market price at date of grant (p)	Market price at date of exercise (p)	Normal exercisable dates
Peter Crook	01.06.2006	54,726	(54,726)	–	nil	603	792.3	–
Andrew Fisher	01.06.2006	47,263	(47,263)	–	nil	603	792.3	–

9.2 Awards under the LTIS in 2007, 2008 and 2009, which were granted as conditional share awards, were as follows:

Director's name	Date of award	Awards held at 01.01.2009	Awards granted during the year	Awards held at 31.12.2009	Market price at date of grant (p)	Vesting date
Peter Crook	12.09.2007	103,626	–	103,626	868.5	12.09.2010
	05.03.2008	95,149	–	95,149	804.0	05.03.2011
	08.05.2009	–	136,771	136,771	892.0	08.05.2012
Andrew Fisher	12.09.2007	79,907	–	79,907	868.5	12.09.2010
	05.03.2008	69,962	–	69,962	804.0	05.03.2011
	08.05.2009	–	97,533	97,533	892.0	08.05.2012
Chris Gillespie	12.09.2007	78,295	–	78,295	868.5	12.09.2010
	05.03.2008	67,164	–	67,164	804.0	05.03.2011
	08.05.2009	–	94,170	94,170	892.0	08.05.2012

9.3 No consideration is payable on the award of options or conditional shares.

9.4 There were no changes in directors' options or conditional share awards between 1 January 2010 and 2 March 2010.

9.5 Details of conditional share awards outstanding on 31 December 2009 are shown in the table in paragraph 9.2.

9.6 None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

9.7 Kleinwort Benson (Jersey) Trustees Limited, as trustee of the EBT, subscribed for 883,931 ordinary shares in May 2009 for the purpose of satisfying the 2009 awards made pursuant to the LTIS. The trustee transferred the beneficial ownership (subject to the performance conditions set out in paragraph 6.14 on page 68) in 328,474 of the shares for no consideration to the executive directors on 22 June 2009. The trustee has entered into a dividend waiver in respect of all the shares it holds in the company at any time.

9.8 The executive directors have waived an entitlement to any dividend in respect of the conditional shares during the vesting period. To the extent an award vests at the end of the performance period, additional ordinary shares in the company or a cash amount equivalent to the dividends that would have been paid on the vested awards from the date of grant, will be paid to the executive directors when the award vests.

9.9 The 2006 options, which vested in full on 1 June 2009, required the company's TSR over a consecutive three-year performance period, when measured against a comparator group of companies, to be at least median (25% vesting), rising on a straight-line basis, with full vesting if the company's TSR exceeded the TSR of the comparator group by 8.5%.

9.10 The 2007 and 2008 conditional share awards require the annualised company TSR over a consecutive three-year performance period, when measured against the annualised Index TSR (being the FTSE 250 Index), to be at least median (25% vesting), rising on a straight-line basis, with full vesting if the annualised company TSR exceeds the annualised Index TSR, by 8.5% on a multiplicative basis. No award will vest if the annualised company TSR is below the annualised Index TSR. The 2009 conditional share awards require the company's annualised growth in earnings per share to be equal to or greater than the annualised growth in RPI plus 8%

over a period of three consecutive financial years for 50% of the award to vest (12.5% of the award will vest if the company's annualised growth in earnings per share over a period of three consecutive financial years is equal to the annualised growth in RPI plus 3% with vesting on a straight-line basis in between these levels) and the remaining 50% of the award vests if the company's annualised TSR is at least 15% measured over a period of three consecutive financial years (12.5% of the award will vest if the company's annualised TSR is at least 10% measured over a period of three consecutive financial years, with vesting on a straight-line basis in between these two levels).

9.11 There has been no variation in the terms and conditions of the participants' interests in the LTIS or the PSP (as referred to in paragraph 10 below) during the year.

10 Performance Share Plan

10.1 Awards held under the Provident Financial Performance Share Plan are as follows:

Director's name	Date of grant	Basic awards (number of shares) held at 01.01.2009	Matching awards (number of shares) held at 01.01.2009	Total basic awards (number of shares) held at 31.12.2009	Total matching awards (number of shares) held at 31.12.2009	Market price of each share when award was granted (p)	Earliest vesting date
Peter	09.03.2006[1]	1,458	1,459	–	–	640	09.03.2009
Crook	05.03.2008	24,539	24,539	24,539	24,539	804	05.03.2011
	04.03.2009	–	–	31,755	31,755	803	04.03.2012
	08.05.2009[2]	–	–	–	31,755	803	08.05.2012
Andrew	05.03.2008	21,579	21,579	21,579	21,579	804	05.03.2011
Fisher	04.03.2009	–	–	23,349	23,349	803	04.03.2012
	08.05.2009[2]	–	–	–	23,349	803	08.05.2012
Chris	05.03.2008	21,144	21,144	21,144	21,144	804	05.03.2011
Gillespie	04.03.2009	–	–	22,415	22,415	803	04.03.2012
	08.05.2009[2]	–	–	–	22,415	803	08.05.2012

[1] Awards were adjusted on 16 July 2007 following the demerger and the subsequent one-for-two share consolidation.
[2] Additional matching award granted following the AGM in May 2009.

10.2 There are no further performance conditions attaching to the basic award since this award of shares is in lieu of the bonus waived as part of the bonus deferral that is required for participation in the PSP. For awards granted in 2008, the matching award will vest only if the company's average annual percentage growth in earnings per share is equal to or greater than the average annual increase in RPI plus 3% measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the matching award. Although basic earnings per share is generally used for the performance calculation, for 2006 awards earnings per share before Yes Car Credit closure costs was used as the starting point to avoid participants benefiting from a low start point due to the impact of the closure of the Yes Car Credit business. Following shareholder approval at the AGM on 6 May 2009, the committee amended the rules of the PSP to allow the grant of matching awards on the basis of up to two shares for each share acquired by a participant pursuant to their basic award. Such awards in 2009 are subject to more stretching performance targets and will only vest in full if the company's average annual percentage growth in earnings per share is equal to or greater than the average annual percentage growth in RPI plus 7% measured over a period of three consecutive financial years. If the company's average annual percentage growth in earnings per share is equal to the average annual percentage growth in RPI plus 3% measured over a period of three consecutive financial years, then a matching award granted on a two-for-one basis (as described above) will only vest as to 50% of the shares subject to the award (which will be the equivalent of receiving a matching award on a one-for-one basis (as described above). A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper targets. For awards made in 2010 the performance target has been stretched to RPI plus 8%.

10.3 The dividends payable on the basic and matching award shares are paid to the directors. The gross amounts received in 2009 were: Peter Crook £91,658 (2008: £33,017), Andrew Fisher £71,885 (2008: £27,405), and Chris Gillespie £69,553 (2008: £26,853). These figures have been included in the table of directors' remuneration in paragraph 7.1. on page 71.

11 Pensions and life assurance

11.1 There are three directors (2008: three) for whom retirement benefits are accruing under the cash balance section of the Provident Financial Staff Pension Scheme ('the pension scheme'). The pension scheme is a defined benefit scheme, with two sections: cash balance and final salary. Details of the cash balance section are set out in paragraph 11.2.

11.2 Peter Crook, Andrew Fisher and Chris Gillespie are members of the cash balance section of the pension scheme and are provided with a pension credit of 35% of their basic salary each year to a retirement account. Directors contribute at the rate of 5% of basic salary through a salary sacrifice arrangement (since 1 April 2009). Currently, the pension credit increases each year by the lower of the increase in RPI plus 1.5% and 6.5%. At retirement up to 25% of the total value of the director's retirement account can be taken as a lump sum, with the balance used to purchase an annuity. If the director dies in service, a death benefit of six times salary plus the value of the retirement account is payable.

11.3 Details of the pension entitlements earned under the cash balance section of the pension scheme are set out in paragraph 11.5 below.

11.4 John van Kuffeler has a defined contribution personal pension arrangement. A life assurance benefit is also provided by the pension scheme. During 2009, the company contributed £29,900 (2008: £29,900) to his pension arrangements. He is also eligible for a lump sum death benefit of four times salary at date of death.

11.5 Details of the pension entitlements earned under the cash balance section of the pension scheme are set out below:

	Age as at 31 December 2009	Accrued retirement account at 31 December		Increase in retirement account[1]		Director's contribution[2]		Transfer value of pension benefits accrued at 31 December		Increase in transfer value less director's contributions
		2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	£000
Peter Crook	46	645	412	233	182	8	26	645	412	225
Andrew Fisher	51	498	329	169	132	5	19	498	329	164
Chris Gillespie	46	354	199	155	126	5	18	354	199	150

1 Whilst the member is in service, the accrued cash balance retirement account will increase by the lower of RPI plus 1.5% and 6.5% until retirement. At retirement, up to 25% of this balance can be taken as a lump sum, with the remaining amount used to purchase an annuity.
2 With effect from 1 April 2009, the directors' contributions to the pension scheme were made through a salary sacrifice arrangement.

12 Directors' service agreements

12.1 John van Kuffeler, Peter Crook and Robert Hough are offering themselves for reappointment at the AGM to be held on 5 May 2010.

12.2 Details of the service agreement of each director with the company or letter of appointment, as relevant, are set out in paragraphs 12.2.1 to 12.2.4 below.

12.2.1 Peter Crook, Andrew Fisher and Chris Gillespie each has a service agreement which requires one year's notice of termination to be given by the company and one year's notice of termination to be given by the director. No notice of termination has been given by either the company or any of the directors and thus in each case the unexpired term is one year. Each service agreement terminates on the date of the director's sixty-fifth birthday. There are no provisions for compensation payable upon early termination of any of the agreements. However, in the event that a director is not reappointed at an AGM of the company, the agreement is automatically terminated and this is treated as a breach by the company. The dates of the service agreements are as follows: Peter Crook 27 April 2006 (amended by letter of variation on 1 February 2007); Andrew Fisher 1 January 2008 and Chris Gillespie 31 May 2007.

12.2.2 The Chairman, John van Kuffeler, has a service agreement dated 29 January 2002 (amended by letters of variation on 24 December 2003, 17 January 2007, 30 January 2007 and 4 July 2007) which requires one year's notice of termination to be given by the company and six months' notice of termination to be given by him. No notice of termination has been given by either party and thus the unexpired term is one year.

12.2.3 Each of the non-executive directors has a letter of appointment. Each director is appointed for a fixed period of three years, subject to appointment by shareholders. The initial three-year period may be extended by one further three-year period (and, in exceptional cases, further extended) subject to reappointment by shareholders. The dates of the letters of appointment and the unexpired terms are as follows: Robert Hough 18 October 2006 (amended by letter of variation on 24 February 2010) unexpired term: to 31 January 2013; Manjit Wolstenholme 1 June 2007 unexpired term: to 31 July 2010; Rob Anderson 27 February 2009 unexpired term: to 30 March 2012.

12.2.4 In accordance with his letter of appointment, John Maxwell's term of appointment expired on 31 May 2009.

13 Audit

The elements of the directors' remuneration (including pension entitlements and share options set out in paragraphs 7.1 and 8 to 11 of this report) which are required to be audited, have been audited in accordance with the Companies Act.

This report has been approved by the remuneration committee and the board and signed on its behalf.

Robert Hough
Chairman, remuneration committee
2 March 2010

Financial statements

The group's accounting policies are chosen by the directors to ensure that the financial statements present a true and fair view. All of the group's accounting policies are consistent with the requirements of International Financial Reporting Standards, interpretations issued by the International Financial Reporting Interpretations Committee and UK company law.

Contents

Consolidated income statement

for the year ended 31 December	Note	Group 2009 £m	Group 2008 £m
Revenue	1,2	815.6	751.2
Finance costs	3	(58.2)	(45.7)
Finance costs before exceptional finance cost	3	(53.8)	(45.7)
Exceptional finance cost	3	(4.4)	–
Operating costs		(425.3)	(379.3)
Administrative expenses		(206.4)	(197.4)
Total costs		(689.9)	(622.4)
Profit before taxation	1,4	125.7	128.8
Profit before taxation and exceptional finance cost	1,4	130.1	128.8
Exceptional finance cost	3	(4.4)	–
Tax charge	5	(37.1)	(36.7)
Profit for the year attributable to equity shareholders		88.6	92.1

All of the above activities relate to continuing operations.

Statements of comprehensive income

	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Profit for the year attributable to equity shareholders		88.6	92.1	30.6	70.7
Other comprehensive income:					
– cash flow hedges	16	(0.8)	(17.3)	0.9	(19.7)
– actuarial movements on retirement benefit asset	18	(37.3)	(17.1)	(10.6)	(4.9)
– tax on other comprehensive income	5	10.6	9.7	2.8	6.8
Other comprehensive income for the year		(27.5)	(24.7)	(6.9)	(17.8)
Total comprehensive income for the year		61.1	67.4	23.7	52.9

Earnings per share and dividends

	Note	Group 2009 pence	Group 2008 pence
Earnings per share			
Basic	6	67.5	70.9
Diluted	6	67.3	70.5
Dividends per share			
Proposed final dividend	7	38.1	38.1
Total dividend in respect of the year	7	63.5	63.5
Paid in the year*	7	63.5	63.5

*The total cost of dividends paid in the year was £84.1m (2008: £83.4m).

Balance sheets

as at 31 December	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
ASSETS					
Non-current assets					
Goodwill	10	2.1	3.1	–	–
Other intangible assets	11	19.5	17.1	–	–
Property, plant and equipment	12	26.3	28.6	3.6	3.7
Investment in subsidiaries	13	–	–	374.3	371.1
Financial assets:					
– amounts receivable from customers	14	86.9	83.7	–	–
– derivative financial instruments	16	12.5	28.9	–	–
– trade and other receivables	17	–	–	438.0	438.0
Retirement benefit asset	18	19.9	50.9	6.1	16.1
Deferred tax assets	19	7.7	–	5.2	1.3
		174.9	212.3	827.2	830.2
Current assets					
Financial assets:					
– amounts receivable from customers	14	1,052.4	979.6	–	–
– cash and cash equivalents	20	20.3	19.5	–	0.5
– trade and other receivables	17	28.2	15.1	901.1	863.2
Current tax assets		–	–	2.4	–
		1,100.9	1,014.2	903.5	863.7
Total assets	1	1,275.8	1,226.5	1,730.7	1,693.9
LIABILITIES					
Current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(72.7)	(4.0)	(43.1)	(1.0)
– derivative financial instruments	16	(18.4)	(4.7)	(17.4)	(4.0)
– trade and other payables	22	(48.0)	(64.0)	(126.6)	(115.7)
Current tax liabilities		(39.2)	(32.8)	–	(12.3)
Provisions	23	(0.8)	(0.8)	–	–
		(179.1)	(106.3)	(187.1)	(133.0)
Non-current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(817.6)	(824.5)	(504.8)	(468.2)
– derivative financial instruments	16	(10.7)	(16.1)	(9.1)	(16.1)
– trade and other payables	22	–	–	(131.3)	(131.3)
Provisions	23	–	(1.2)	–	–
Deferred tax liabilities	19	–	(0.5)	–	–
		(828.3)	(842.3)	(645.2)	(615.6)
Total liabilities	1	(1,007.4)	(948.6)	(832.3)	(748.6)
NET ASSETS	1	268.4	277.9	898.4	945.3
SHAREHOLDERS' EQUITY					
Called-up share capital	24	27.9	27.3	27.9	27.3
Share premium account		142.4	134.6	142.4	134.6
Other reserves	26	(13.0)	(16.3)	596.7	592.1
Retained earnings		111.1	132.3	131.4	191.3
TOTAL EQUITY		268.4	277.9	898.4	945.3

The financial statements on pages 76 to 125 were approved by the board of directors on 2 March 2010 and signed on its behalf by:

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

Financial statements

Statements of changes in shareholders' equity

Group	Note	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2008		27.2	132.7	0.1	135.9	295.9
Profit for the year		–	–	–	92.1	92.1
Other comprehensive income:						
– cash flow hedges	16	–	–	(17.3)	–	(17.3)
– actuarial movements on retirement benefit asset	18	–	–	–	(17.1)	(17.1)
– tax on other comprehensive income		–	–	4.9	4.8	9.7
Other comprehensive income for the year		–	–	(12.4)	(12.3)	(24.7)
Total comprehensive income for the year		–	–	(12.4)	79.8	67.4
Transactions with owners:						
– issue of share capital	24	0.1	1.9	–	–	2.0
– purchase of own shares		–	–	(8.7)	–	(8.7)
– share-based payment charge	25	–	–	4.7	–	4.7
– dividends	7	–	–	–	(83.4)	(83.4)
At 31 December 2008		27.3	134.6	(16.3)	132.3	277.9
At 1 January 2009		27.3	134.6	(16.3)	132.3	277.9
Profit for the year		–	–	–	88.6	88.6
Other comprehensive income:						
– cash flow hedges	16	–	–	(0.8)	–	(0.8)
– actuarial movements on retirement benefit asset	18	–	–	–	(37.3)	(37.3)
– tax on other comprehensive income		–	–	0.2	10.4	10.6
Other comprehensive income for the year		–	–	(0.6)	(26.9)	(27.5)
Total comprehensive income for the year		–	–	(0.6)	61.7	61.1
Transactions with owners:						
– issue of share capital	24	0.6	7.8	–	–	8.4
– purchase of own shares		–	–	(0.9)	–	(0.9)
– share-based payment charge	25	–	–	6.1	–	6.1
– transfer of share-based payment reserve		–	–	(1.3)	1.3	–
– deferred tax on share-based payment reserve transfer		–	–	–	(0.1)	(0.1)
– dividends	7	–	–	–	(84.1)	(84.1)
At 31 December 2009		27.9	142.4	(13.0)	111.1	268.4

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings is shown after directly writing off cumulative goodwill of £1.6m (2008: £1.6m). In addition, cumulative goodwill of £2.3m (2008: £2.3m) has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 26.

Company	Note	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2008		27.2	132.7	610.4	207.5	977.8
Profit for the year		–	–	–	70.7	70.7
Other comprehensive income:						
– cash flow hedges	16	–	–	(19.7)	–	(19.7)
– actuarial movements on retirement benefit asset	18	–	–	–	(4.9)	(4.9)
– tax on other comprehensive income		–	–	5.4	1.4	6.8
Other comprehensive income for the year		–	–	(14.3)	(3.5)	(17.8)
Total comprehensive income for the year		–	–	(14.3)	67.2	52.9
Transactions with owners:						
– issue of share capital	24	0.1	1.9	–	–	2.0
– purchase of own shares		–	–	(8.7)	–	(8.7)
– share-based payment charge	25	–	–	2.1	–	2.1
– share-based payment movement in investment in subsidiaries	13	–	–	2.6	–	2.6
– dividends	7	–	–	–	(83.4)	(83.4)
At 31 December 2008		27.3	134.6	592.1	191.3	945.3
At 1 January 2009		27.3	134.6	592.1	191.3	945.3
Profit for the year		–	–	–	30.6	30.6
Other comprehensive income:						
– cash flow hedges	16	–	–	0.9	–	0.9
– actuarial movements on retirement benefit asset	18	–	–	–	(10.6)	(10.6)
– tax on other comprehensive income		–	–	(0.2)	3.0	2.8
Other comprehensive income for the year		–	–	0.7	(7.6)	(6.9)
Total comprehensive income for the year		–	–	0.7	23.0	23.7
Transactions with owners:						
– issue of share capital	24	0.6	7.8	–	–	8.4
– purchase of own shares		–	–	(0.9)	–	(0.9)
– share-based payment charge	25	–	–	2.9	–	2.9
– share-based payment movement in investment in subsidiaries	13	–	–	3.2	–	3.2
– transfer of share-based payment reserve		–	–	(1.3)	1.3	–
– deferred tax on share-based payment reserve transfer	19	–	–	–	(0.1)	(0.1)
– dividends	7	–	–	–	(84.1)	(84.1)
At 31 December 2009		27.9	142.4	596.7	131.4	898.4

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the company has not presented its own income statement. The profit for the financial year dealt with in the financial statements of the company was £30.6m (2008: £70.7m).

Other reserves are further analysed in note 26.

Financial statements

Statements of cash flows

for the year ended 31 December	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Cash flows from operations					
Cash generated from/(used in) operations	30	92.7	40.9	(30.3)	(118.9)
Finance costs paid		(57.0)	(44.1)	(50.4)	(31.6)
Finance income received		–	–	57.2	84.0
Tax paid		(28.4)	(29.7)	(12.6)	(10.9)
Net cash generated from/(used in) operating activities		7.3	(32.9)	(36.1)	(77.4)
Cash flows from investing activities					
Purchases of intangible assets	11	(6.2)	(6.2)	–	–
Purchases of property, plant and equipment	12	(7.2)	(8.5)	(0.4)	(0.6)
Proceeds from disposal of property, plant and equipment	12	0.9	0.8	–	–
Proceeds from disposal of subsidiary undertaking	10	0.7	–	–	–
Additional investment in subsidiaries		–	–	–	(10.5)
Dividends received		–	–	30.0	40.6
Net cash (used in)/generated from investing activities		(11.8)	(13.9)	29.6	29.5
Cash flows from financing activities					
Proceeds from borrowings		250.0	191.0	250.0	191.0
Repayment of borrowings		(171.3)	(51.8)	(169.9)	(45.5)
Dividends paid to company shareholders	7	(84.1)	(83.4)	(84.1)	(83.4)
Proceeds from issue of share capital	24	8.4	2.0	8.4	2.0
Purchase of own shares	26	(0.9)	(8.7)	(0.9)	(8.7)
Net cash generated from financing activities		2.1	49.1	3.5	55.4
Net (decrease)/increase in cash, cash equivalents and overdrafts		(2.4)	2.3	(3.0)	7.5
Cash, cash equivalents and overdrafts at beginning of year		16.9	14.6	(0.5)	(8.0)
Cash, cash equivalents and overdrafts at end of year		14.5	16.9	(3.5)	(0.5)
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	20	20.3	19.5	–	0.5
Overdrafts – held in bank and other borrowings	21	(5.8)	(2.6)	(3.5)	(1.0)
Total cash, cash equivalents and overdrafts		14.5	16.9	(3.5)	(0.5)

Financial statements

Statement of accounting policies

General information

The company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is Colonnade, Sunbridge Road, Bradford, BD1 2LQ.

The company is listed on the London Stock Exchange.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the group and company's accounting policies. The group and company's principal accounting policies under IFRS, which have been consistently applied to all the years presented unless otherwise stated, are set out below.

The following interpretations became mandatory for accounting periods beginning on or after 1 January 2009:

- IAS 1 (revised), 'Presentation of financial statements'. The most significant change within IAS 1 (revised) is the requirement to produce a statement of comprehensive income setting out all items of income and expense relating to non-owner changes in equity. There is a choice between presenting comprehensive income in one statement or in two statements comprising an income statement and a separate statement of comprehensive income. The group has elected to present comprehensive income in two statements. In addition, IAS 1 (revised) requires the statement of changes in shareholders' equity to be presented as a primary statement. The other revisions to IAS 1 have not had a significant impact on the presentation of the group's financial information.
- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting' and requires the disclosure of segment information on the same basis as the management information provided to the chief operating decision maker. The adoption of this standard has not resulted in a change in the group's reportable segments.
- IFRS 7, 'Financial instruments – Disclosures' (amendment). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The amendment does not have a material impact on the group or company financial statements.
- IFRS 2 (amendment), 'Share-based payment'. The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group and company has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the group or company financial statements.
- IAS 23 (amendment), 'Borrowing costs' (2007). The amendment requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset for which the commencement date for capitalisation is on or after 1 January 2009, to be capitalised as part of the cost of that asset. The group previously recognised all borrowing costs as an expense immediately. The amendment does not have a material impact on the group or company financial statements.

At the date of approval of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but are only mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods. Adoption of these standards and interpretations is not expected to have a material impact on the group or company financial statements:

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008 and provides guidance on accounting for arrangements where an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5, 'Non-current assets held for sale and discontinued operations' has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The group and company will apply IFRIC 17 from 1 January 2010.
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

Basis of preparation – continued

- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the group and company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has a similar useful economic life.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The group and company will apply IFRS 5 (amendment) from 1 January 2010.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The group and company will apply IAS 1 (amendment) from 1 January 2010.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

Basis of consolidation

The consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and notes to the financial statements include the financial statements of the company and all of its subsidiary undertakings drawn up from the date control passes to the group until the date control ceases.

Control is assumed to exist where more than 50% of the voting share capital is owned or where the group controls another entity either through the power to:

- govern the operating and financial policies of that entity;
- appoint or remove the majority of the members of the board of that entity; or
- cast the majority of the votes at a board meeting of that entity.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

The accounting policies of subsidiaries are consistent with the accounting policies of the group.

Revenue

Revenue comprises interest income earned by the Consumer Credit Division and interest and fee income earned by Vanquis Bank. Revenue also includes the interest income earned by Yes Car Credit from the collect-out of the receivables that were held on closure of the business in December 2005.

Revenue excludes value added tax and intra-group transactions.

Revenue recognition

Within the Consumer Credit Division, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers repaying early but excluding the anticipated impact of customers paying late or not paying at all. Directly attributable incremental issue costs are also taken into account in calculating the effective interest rate. Interest income continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value.

In respect of the credit card business of Vanquis Bank, interest is calculated on credit card advances to customers using the effective interest rate on the daily balance outstanding. Annual fees charged to customers' credit card accounts are recognised as part of the effective interest rate. Penalty charges and other fees are recognised at the time the charges are made to customers on the basis that performance is complete.

For the receivables relating to the car finance business of Yes Car Credit, finance income and insurance commission are treated as part of the yield on the financing arrangement and are recognised using the effective interest rate method.

Segmental reporting

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The group's chief operating decision maker is deemed to be the Executive Committee comprising Peter Crook (Chief Executive), Andrew Fisher (Finance Director) and Chris Gillespie (Managing Director, Consumer Credit Division) whose primary responsibility it is to manage the group's day to day operations and analyse trading performance. The group's segments comprise the Consumer Credit Division, Vanquis Bank, Yes Car Credit and Central which are those segments reported in the group's management accounts used by the Executive Committee as the primary means for analysing trading performance. The Executive Committee assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the group financial statements.

Finance costs

Finance costs principally comprise the interest on bank and other borrowings and, for the company, on intra-group loan arrangements, and are recognised on an effective interest rate basis. Finance costs also include the fair value movement on those derivative financial instruments held for hedging purposes which do not qualify for hedge accounting under IAS 39.

Dividend income

Dividend income is recognised in the income statement when the company's right to receive payment is established.

Discontinued operations

Discontinued operations represent components of the group that have been disposed of in accordance with IFRS 5. When applicable, the profit or loss after tax from discontinued operations is disclosed as a single line in the income statement beneath profit after tax from continuing operations. The cash flows from discontinued operations are also disclosed as a single line item in each category of the statement of cash flows.

Goodwill

All acquisitions are accounted for using the purchase method of accounting.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cash flows from the relevant business unit. Expected cash flows are derived from the group's latest budget projections and the discount rate is based on the group's weighted average cost of capital at the balance sheet date. Impairment losses on goodwill are not reversed.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

Other intangible assets

Other intangible assets, which comprise computer software development costs, are capitalised as intangible assets on the basis of the costs incurred to acquire or develop the specific software and bring it into use.

Directly attributable costs associated with the development of software that will generate future economic benefits are capitalised as part of the software intangible asset. Direct costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software is amortised on a straight-line basis over its estimated useful economic life which is generally estimated to be between five and ten years.

The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Foreign currency translation

Items included in the financial statements of each of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('the functional currency'). All of the group's subsidiaries operate primarily in the UK and Republic of Ireland. The consolidated and company financial statements are presented in sterling, which is the company's functional and presentational currency.

Transactions that are not denominated in a subsidiary's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as effective cash flow hedges or effective net investment hedges.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Amounts receivable from customers

All customer receivables are initially recognised at the amount loaned to the customer plus directly attributable incremental issue costs. After initial recognition, customer receivables are subsequently measured at amortised cost. Amortised cost is the amount of the customer receivable at initial recognition less customer repayments, plus revenue earned calculated using the effective interest rate, less any deduction for impairment.

The group assesses whether there is objective evidence that customer receivables have been impaired at each balance sheet date. The principal criteria for determining whether there is objective evidence of impairment is delinquency in contractual payments.

Within the weekly home credit business of the Consumer Credit Division, objective evidence of impairment is based on the payment performance of loans in the previous 12 weeks as this is considered to be the most appropriate indicator of credit quality in the short-term cash loans business. Loans are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate significantly. Loans with one missed weekly payment over the previous 12-week period are not deemed to be impaired. The amount of impairment loss is calculated on a portfolio basis by reference to arrears stages and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate. Subsequent cash flows are regularly compared to estimated cash flows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

Within the monthly Vanquis Bank credit card business and the monthly unsecured direct repayment loans of the Consumer Credit Division, customer balances are deemed to be impaired as soon as customers miss one monthly contractual payment. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cash flows discounted at the original effective interest rate. Estimated future cash flows are based on the historical performance of customer balances falling into different arrears stages and are regularly reassessed.

At Yes Car Credit, customer accounts are deemed to be impaired as soon as one monthly contractual payment has been missed. Impairment is calculated as the difference between the carrying value of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Estimated future cash flows on impaired loans include the expected proceeds from the disposal of the motor vehicle upon which finance was originally provided.

For the Consumer Credit Division and Yes Car Credit, impairment charges are deducted directly from the carrying value of receivables whilst in Vanquis Bank impairment is recorded through the use of an allowance account.

Impairment charges are charged to the income statement as part of operating costs.

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment.

Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable value over their useful economic lives. The following are the principal bases used:

	%	Method
Land	Nil	–
Freehold and long leasehold buildings	$2\frac{1}{2}$	Straight-line
Short leasehold buildings	Over the lease period	Straight-line
Equipment (including computer hardware)	10 to $33\frac{1}{3}$	Straight-line
Motor vehicles	25	Reducing balance

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying amount of the asset and are recognised within administrative expenses in the income statement.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the group and company are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances. For the statement of cashflows, bank overdrafts are shown as part of cash and cash equivalents.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate.

Where borrowings are the subject of a fair value hedge, changes in the fair value of the borrowing that are attributable to the hedged risk are recognised in the income statement and a corresponding adjustment made to the carrying value of borrowings.

Borrowings are classified as current liabilities unless the group or company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative financial instruments

The group and company use derivative financial instruments, principally interest rate swaps, cross-currency swaps and forward currency contracts, to manage the interest rate and foreign exchange rate risk arising from the group's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39, 'Financial instruments: Recognition and measurement'. Derivatives that meet the hedge accounting requirements of IAS 39 are accordingly designated as either: hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

The relationship between hedging instruments and hedged items is documented at the inception of a transaction, as well as the risk management objectives and strategy for undertaking various hedging transactions. The assessment of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items is documented, both at the hedge inception and on an ongoing basis.

Derivatives are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently remeasured at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the income statement. Where hedge accounting criteria has been met, the resultant gain or loss on the derivative instrument is recognised as follows:

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement as part of finance costs, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts accumulated in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Hedge accounting for both fair value and cash flow hedges is discontinued when:

- it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge; or
- the derivative expires, or is sold, terminated or exercised; or
- the underlying hedged item matures or is sold or repaid.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is transferred to the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was previously reported in equity is immediately transferred to the income statement.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve in shareholders' equity are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Provisions

Provisions are recognised when the group or company has a present obligation as a result of a past event, it is reliably measurable and it is probable that the group or company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Dividends

Dividend distributions to the company's shareholders are recognised in the group and company financial statements as follows:

- Final dividend: when approved by the company's shareholders at the annual general meeting.
- Interim dividend: when paid by the company.

Retirement benefits

Defined benefit pension schemes
The charge/credit in the income statement in respect of defined benefit pension schemes comprises the actuarially assessed current service cost of working employees, together with the interest charge on pension liabilities offset by the expected return on pension scheme assets. All charges/credits are recognised within administrative expenses in the income statement.

The retirement benefit asset/liability recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of the schemes' assets less the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised past service costs. A retirement benefit asset is recognised to the extent that the group and company has an unconditional right to a refund of the asset and it will be recovered in future years as a result of reduced contributions to the pension scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement, unless changes to the pension schemes are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

Defined contribution schemes
Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Share-based payments

The company grants options under senior executive share option schemes (ESOS/SESO) and employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Performance Share Plan (PSP) and the Long-Term Incentive Scheme (LTIS). All of the schemes are equity-settled.

The cost of providing options and awards to group and company employees is charged to the income statement of the group and company over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The grant by the company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value at the date of grant or award, is recognised over the vesting period as an increase to investments in subsidiary undertakings, with a corresponding credit to equity.

The cost of options and awards is based on fair value. For ESOS/SESO, SAYE and PSP schemes the performance conditions are based on earnings per share (EPS). Accordingly, the fair value of options and awards is determined using a binomial option pricing model which is a suitable model for valuing options with internal related targets such as EPS. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected and actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

For the 2006, 2007 and 2008 LTIS schemes, performance conditions are based on Total Shareholder Return (TSR). Accordingly, the fair value of awards was determined using a Monte Carlo option pricing model as this is the most appropriate model for valuing options with external related targets such as TSR. For the 2009 LTIS scheme, performance conditions are based on a combination of both EPS and TSR targets. Accordingly, the fair value of awards was determined using a combination of the Monte Carlo and binomial option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses. Where the Monte Carlo option pricing model is used to determine fair value, no adjustment is made to reflect expected and actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

The proceeds received net of any directly attributable transaction costs for share options vesting are credited to share capital and the share premium account when the options are exercised. A transfer is made from the share-based payment reserve to retained earnings on vesting or when options and awards lapse. In accordance with the transitional provisions of IFRS 2 the group and company have elected to apply IFRS 2 to grants, options and other equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid including any directly attributable incremental costs, is included within a treasury shares reserve and deducted from equity until the shares are cancelled or reissued. Where such shares are reissued, any consideration received, net of any directly attributable incremental transaction costs, is included within the treasury shares reserve.

Taxation

The tax charge represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the group/company and it is probable that the temporary difference will not reverse in the future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Key assumptions and estimates

In applying the accounting policies set out above, the group and company make significant estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

Amounts receivable from customers (£1,139.3m)
The group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable predictor of future payment performance. The group makes judgements to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows. In the weekly home credit business, receivables are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly.

Customer accounts in Vanquis Bank, the monthly unsecured direct repayment loans of the Consumer Credit Division and loans within Yes Car Credit, are deemed to be impaired when one contractual monthly payment has been missed. The level of impairment in all businesses is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage, and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment, product mix and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, a material adjustment to the carrying value of amounts receivable from customers may be required.

To the extent that the net present value of estimated future cash flows differs by +/- 1%, it is estimated that the amounts receivable from customers would be approximately £11m (2008: £10m) higher/lower.

Tax (current tax liabilities £39.2m, deferred tax asset £7.7m)
The tax treatment of certain items cannot be determined precisely until tax audits or enquiries have been completed by the tax authorities. In some instances, this can be some years after the item has first been reflected in the financial statements. The group recognises liabilities for anticipated tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due. If the outcome of such audits is that the final liability is different to the amount originally estimated, such differences will be recognised in the period in which the tax audit or enquiry is determined. Any differences may necessitate a material adjustment to the level of tax balances held in the balance sheet.

If the probability assessment of uncertain tax liabilities was adjusted by +/- 5%, it is estimated that the group's tax liabilities would be £1.9m (2008: £1.7m) higher/lower.

Retirement benefit asset (£19.9m)
The principal assumptions used in the valuation of the retirement benefit asset as at 31 December 2009 are set out in note 18.

The valuation of the retirement benefit asset is dependent upon a series of assumptions; the key assumptions being mortality rates, the discount rate applied to liabilities, investment returns, salary inflation, the rate of pension increase and the extent to which members take up the maximum tax free commutation on retirement.

Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the group's own experience. Discount rates are based on the market yields of high quality corporate bonds which have terms closely linked with the estimated term of the benefit obligation. The returns on fixed asset investments are set to market yields at the valuation date to ensure consistency with the asset valuation. The returns on UK and overseas equities are set by considering the long-term expected returns on these asset classes using a combination of historical performance analysis, the forward looking views of financial markets (as suggested by the yields available) and the views of investment organisations. The salary inflation and pension increase assumptions reflect the long-term expectations for both earnings and retail price inflation. The assumption as to how many members will take up the maximum tax free commutation on retirement is based on the scheme's own experience of commutation levels.

A sensitivity analysis of certain of the key assumptions is provided in note 18.

Financial and capital risk management

Financial risk management

The group's activities expose it to a variety of financial risks, which can be categorised as credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The objective of the group's risk management framework is to identify and assess the risks facing the group and to minimise the potential adverse effects of these risks on the group's financial performance.

Financial risk management is overseen by the risk advisory committee and further detail on the group's risk management framework is described on page 61.

(a) Credit risk
Credit risk is the risk that the group will suffer loss in the event of a default by a customer or a bank counterparty. A default occurs when the customer or bank fails to honour repayments as they fall due.

(i) Amounts receivable from customers
The group's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2009 is the carrying value of amounts receivable from customers of £1,139.3m (2008: £1,063.3m).

CONSUMER CREDIT DIVISION (CCD)
Credit risk within CCD is managed by the CCD credit committee which meets at least every two months and is responsible for approving product criteria and pricing.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, and a home visit to make a decision on applications for credit.

The loans offered by the weekly home credit business are short-term, typically a contractual period of around a year, with an average value of less than £400. The loans are underwritten in the home by an agent with emphasis placed on any previous lending experience with the customer and the home credit agent's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the agent visits the customer weekly to collect the weekly payment. The agent is well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the agent has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This can be in the form of taking part payments, allowing missed payments or occasionally restructuring the debt in order to maximise cash collections.

Agents are paid commission for what they collect and not for what they lend so their primary focus is on ensuring loans are affordable at the point of issue and then on collecting cash. Affordability is reassessed by the agent each time an existing customer is re-served, or not as the case may be. This normally takes place within 12 months of the previous loan because of the short-term nature of the product.

Underwriting of monthly unsecured direct repayment loans is performed in the home. The emphasis is placed on employment and residential history, credit bureau reports, bank statements, salary slips, disposable income calculations and the home visit. Average loans sizes are typically £1,800 repayable monthly via direct debit over a two-year period.

Arrears management for both home credit loans and monthly unsecured direct repayment loans is a combination of central letters, central telephony, and field activity undertaken by field management. This will often involve a home visit to discuss the customer's reasons for non-payment and to agree a resolution.

VANQUIS BANK
Credit risk within Vanquis Bank is managed by the Vanquis Bank credit committee which meets at least quarterly and is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance to policy.

A customer's risk profile and credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historic payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income and employment, and data from external credit bureau. Initial credit limits are low, typically £250. For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders. Credit lines can go up as well as down according to this point in time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in recovering to a good standing.

Financial risk management – continued

(ii) Bank counterparties
The group's maximum exposure to credit risk on bank counterparties as at 31 December 2009 was £13.6m (2008: £29.7m).

Counterparty credit risk arises as a result of cash deposits placed with banks and the use of derivative financial instruments with banks and other financial institutions which are used to hedge interest rate risk and foreign exchange rate risk.

Counterparty credit risk is managed by the group's treasury committee and is governed by a board approved counterparty policy which ensures that the group's cash deposits and derivative financial instruments are only made with high quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, regardless of credit rating. This is linked to the group's regulatory capital base in line with the group's regulatory reporting requirements on large exposures to the Financial Services Authority (FSA).

(b) Liquidity risk
Liquidity risk is the risk that the group will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due.

Liquidity risk is managed by the group's centralised treasury department through daily monitoring of expected cash flows in accordance with a board approved group funding and liquidity policy. This process is monitored regularly by the treasury committee.

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business through its existing borrowing facilities. The group therefore maintains committed borrowing facilities in excess of expected borrowing requirements to ensure a significant and continuing headroom above forecast requirements at all times for at least the following 12 months. In determining the forecast borrowing requirement, attention is paid to the currently undrawn credit lines granted by Vanquis Bank. As at 31 December 2009, the group's committed borrowing facilities had a weighted average maturity of 3.5 years (2008: 3.0 years) and the headroom on these committed facilities amounted to £331.0m (2008: £251.2m).

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business, the group's largest business, are of short-term duration (typically around one year) whereas the group's borrowings extend over a number of years.

A maturity analysis of the undiscounted contractual cash flows of the group's bank and other borrowings, including derivative financial instruments settled on a net and gross basis, is shown below. It should be noted that borrowings drawn under the group's revolving bank facilities are shown below as being repaid in less than one year. The group may then redraw these amounts until the contractual maturity of the underlying facility.

Financial liabilities

2009	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– senior public bonds	–	20.0	20.0	60.0	350.0	450.0
– private placement loan notes	–	39.1	84.4	103.4	–	226.9
– subordinated loan notes	–	0.4	0.4	1.1	6.3	8.2
– other	4.9	236.4	–	200.0	–	441.3
Total bank and other borrowings	4.9	295.9	104.8	364.5	356.3	1,126.4
Derivative financial instruments – settled gross	–	1.5	2.3	2.1	–	5.9
Derivative financial instruments – settled net	–	27.0	4.3	–	–	31.3
Total derivative financial instruments	–	28.5	6.6	2.1	–	37.2
Trade and other payables	–	48.0	–	–	–	48.0
Total	4.9	372.4	111.4	366.6	356.3	1,211.6

Financial assets

2009	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled gross	–	2.3	5.2	15.8	–	23.3
Total	–	2.3	5.2	15.8	–	23.3

Financial risk management – continued

Financial liabilities

2008	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– private placement loan notes	–	13.6	63.6	144.5	41.4	263.1
– subordinated loan notes	–	7.1	7.1	21.4	114.3	149.9
– other	2.6	322.7	–	200.0	–	525.3
Total bank and other borrowings	2.6	343.4	70.7	365.9	155.7	938.3
Derivative financial instruments – settled gross	–	–	–	0.4	–	0.4
Derivative financial instruments – settled net	–	7.5	13.5	0.7	–	21.7
Total derivative financial instruments	–	7.5	13.5	1.1	–	22.1
Trade and other payables	–	64.0	–	–	–	64.0
Total	2.6	414.9	84.2	367.0	155.7	1,024.4

Financial assets

2008	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled gross	–	2.0	3.9	11.4	11.0	28.3
Total	–	2.0	3.9	11.4	11.0	28.3

(c) Interest rate risk
Interest rate risk is the risk of a change in external interest rates which leads to an increase in the group's cost of borrowing.

The group's interest cost is a relatively small part of the group's cost base, representing only 7.0% (2008: 7.3%) of total costs for the year ended 31 December 2009.

The group's exposure to movements in interest rates is managed monthly by the treasury committee and is governed by a board approved interest rate hedging policy which forms part of the group's treasury policies.

The group seeks to limit the net exposure to changes in sterling interest rates. This is achieved through a combination of issuing fixed rate debt and by the use of derivative financial instruments such as interest rate swaps.

A 2% movement in the interest rate applied to borrowings during 2009 and 2008 would not have had a material impact on the group's profit before taxation as the group's interest rate risk was substantially hedged.

(d) Foreign exchange rate risk
Foreign exchange rate risk is the risk of a change in foreign currency exchange rates leading to a reduction in profits or equity.

The group's exposure to movements in foreign exchange rates is monitored monthly by the treasury committee and is governed by a board approved foreign exchange rate risk management policy which forms part of the group's treasury policies.

The group's exposures to foreign exchange rate risk arise solely from (i) the issuance of US dollar private placement loan notes, which are fully hedged into sterling through the use of cross-currency swaps, and (ii) the home credit operations in the Republic of Ireland, which are hedged by matching euro denominated net assets with euro denominated borrowings as closely as practicable.

As at 31 December 2009, a 2% movement in the sterling to US dollar exchange rate would have led to a £8.9m (2008: £4.2m) movement in external borrowings with an opposite movement of £8.9m (2008: £4.2m) in the hedging reserve within equity. Due to the hedging arrangements in place, there would have been no impact on reported profits.

As at 31 December 2009, a 2% movement in the sterling to euro exchange rate would have led to a £1.0m (2008: £1.0m) movement in customer receivables with an opposite movement of £1.0m (2008: £1.0m) in external borrowings. Due to the natural hedging of matching euro denominated assets with euro denominated liabilities, there would have been no impact on reported profits or equity.

(e) Market risk
Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The group's policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Capital risk management

The group's objective in respect of capital risk management is to maintain an efficient capital structure whilst satisfying the requirements of the group's banking covenants, regulatory capital requirements and the requirements of Fitch Ratings, who provide the group's external credit rating.

The group manages its capital base against two measures as described below:

(a) Ordinary shareholders' capital to receivables
The group has an internal target ratio of ordinary shareholders' capital to receivables of 15%. This target has been set as the optimum ratio to ensure that the group's capital risk management objective is met. For the purposes of this ratio, ordinary shareholders' capital excludes the group's pension asset, net of deferred tax, the fair value of derivative financial instruments being held for hedging purposes within the hedging reserve, and is stated after deducting proposed dividends. The group monitors ordinary shareholders' capital to receivables on a monthly basis as part of the group's management accounts and the ratio is forecast forward for five years as part of the group's budgeting process. The level of surplus capital retained within the group is assessed by the board on an ongoing basis against the group's strategic objectives and growth plans.

As at 31 December 2009, the group's ordinary shareholders' capital to receivables ratio was 18.9% (2008: 19.1%) as set out below:

	Note	2009 £m	2008 £m
Receivables	14	1,139.3	1,063.3
Shareholders' equity		268.4	277.9
Pension asset	18	(19.9)	(50.9)
Deferred tax on pension asset		5.6	14.3
Hedging reserve (net of deferred tax)	26	12.6	12.0
Proposed final dividend	7	(51.2)	(50.6)
Ordinary shareholders' capital		215.5	202.7
Ordinary shareholders' capital to receivables ratio		18.9%	19.1%

The reduction in the ordinary shareholders' capital to receivables ratio compared with 2008 principally reflects the investment in the loan books of the Consumer Credit Division and Vanquis Bank. Based on the group's target ratio of 15%, and after taking into account operational seasonality and the timing of dividend payments, this implies surplus capital of approximately £50m exists at 31 December 2009 (2008: £55m). The surplus capital is being retained to fund growth opportunities and provide a sensible degree of strategic flexibility.

(b) Regulatory capital
The group is the subject of consolidated supervision by the FSA. As part of this supervision, the group is required to maintain a certain level of regulatory capital to mitigate against unexpected losses. Regulatory capital differs from the group's equity base included in the balance sheet as it excludes items such as intangible assets and the group's pension asset, but includes the group's subordinated loan notes. Risk weighted assets principally comprise receivables and other assets of the group but exclude the group's pension asset and intangible assets.

On 1 January 2008, the group made the transition from reporting under the old BASEL I regulatory framework to reporting under the new BASEL II framework. Following this transition, the group has been operating under interim capital guidance set by the FSA whilst the FSA was considering the group's ICAAP (see page 37). In September 2009, final Individual Capital Guidance (ICG) was received from the FSA.

The treasury committee monitors the level of regulatory capital, and capital adequacy is reported to the board on a monthly basis in the group's management accounts. The group regularly forecasts regulatory capital requirements as part of the budgeting and strategic planning process. The group is required to report twice annually to the FSA on the level of regulatory capital it holds. Under the BASEL II framework, the group is required to report its regulatory capital as a percentage of its Pillar I minimum capital requirement which is determined based on pre-determined formulas for calculating credit risk and operational risk. As at 31 December 2009, the regulatory capital held by the group as a percentage of the Pillar I minimum capital requirement was 293% (2008: 419%) as set out below:

	2009 £m	2008 £m
Pillar I minimum capital requirement	85.6	79.4
Tier 1 capital	245.1	232.8
Tier 2 capital – subordinated loan notes	6.0	100.0
Total regulatory capital	251.1	332.8
Total regulatory capital as a percentage of Pillar I minimum capital requirement	293%	419%

The group's total regulatory capital as a percentage of the Pillar I minimum capital requirement was comfortably in excess of the ICG set by the FSA.

Notes to the financial statements

1 Segmental reporting

Group	Revenue 2009 £m	Revenue 2008 £m	Profit/(loss) before taxation 2009 £m	Profit/(loss) before taxation 2008 £m
Consumer Credit Division	681.6	651.8	121.2	126.1
Vanquis Bank	131.3	94.6	14.1	8.0
Yes Car Credit	2.7	4.8	0.2	(2.9)
	815.6	751.2	135.5	131.2
Central:				
– costs	–	–	(7.0)	(5.5)
– interest receivable	–	–	1.6	3.1
Total central	–	–	(5.4)	(2.4)
Total group before exceptional finance cost	815.6	751.2	130.1	128.8
Exceptional finance cost (note 3)	–	–	(4.4)	–
Total group	815.6	751.2	125.7	128.8

The Consumer Credit Division profit of £121.2m (2008: £126.1m) comprises a profit of £128.9m in respect of the home credit business (2008: £128.8m) and a loss of £7.7m in respect of Real Personal Finance (2008: loss of £2.7m).

All of the above activities relate to continuing operations as defined in IFRS 5. Consistent with the treatment in prior years, the Yes Car Credit operation has been classified as part of continuing operations on the basis that revenue and impairment has continued to be generated from the loan book up until full collect-out of the loan book and closure of the collections operation in 2009.

Revenue between business segments is not material.

All of the group's operations operate in the UK and Republic of Ireland.

Group	Segment assets 2009 £m	Segment assets 2008 £m	Segment liabilities 2009 £m	Segment liabilities 2008 £m	Net assets/(liabilities) 2009 £m	Net assets/(liabilities) 2008 £m
Consumer Credit Division	967.9	949.7	(734.3)	(719.6)	233.6	230.1
Vanquis Bank	269.5	215.8	(217.8)	(175.0)	51.7	40.8
Yes Car Credit	–	6.0	–	(46.2)	–	(40.2)
Central	167.5	121.7	(184.4)	(74.5)	(16.9)	47.2
Total before intra-group elimination	1,404.9	1,293.2	(1,136.5)	(1,015.3)	268.4	277.9
Intra-group elimination	(129.1)	(66.7)	129.1	66.7	–	–
Total group	1,275.8	1,226.5	(1,007.4)	(948.6)	268.4	277.9

The residual assets, liabilities and share of group borrowings of Yes Car Credit have been transferred to central activities following closure of the collections operation in 2009.

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing the borrowings of the Consumer Credit Division to reflect a borrowings to receivables ratio of 80%. The impact of this is an increase in the notional allocation of group borrowings to the Consumer Credit Division of £129.1m (2008: £66.7m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

Group	Capital expenditure 2009 £m	Capital expenditure 2008 £m	Depreciation 2009 £m	Depreciation 2008 £m	Amortisation 2009 £m	Amortisation 2008 £m
Consumer Credit Division	11.5	12.0	6.8	6.4	3.6	1.4
Vanquis Bank	1.5	2.1	1.0	0.7	0.2	0.3
Yes Car Credit	–	–	–	–	–	–
Central	0.4	0.6	0.4	0.4	–	–
Total group	13.4	14.7	8.2	7.5	3.8	1.7

Capital expenditure in 2009 comprises expenditure on intangible assets of £6.2m (2008: £6.2m) and property, plant and equipment of £7.2m (2008: £8.5m).

2 Revenue

	Group 2009 £m	Group 2008 £m
Interest income	770.4	721.1
Fee income	45.2	30.1
Total revenue	815.6	751.2

All fee income earned relates to Vanquis Bank.

3 Finance costs

	Group 2009 £m	Group 2008 £m
Interest payable on bank borrowings	33.4	23.2
Interest payable on senior public bonds	3.8	–
Interest payable on private placement loan notes	11.3	14.8
Interest payable on subordinated loan notes	5.8	7.3
Net hedge ineffectiveness and other fair value movements	(0.5)	0.4
Total finance costs before exceptional finance cost	53.8	45.7
Exceptional finance cost	4.4	–
Total finance costs	58.2	45.7

The exceptional finance cost of £4.4m in 2009 comprises:

- a £6.8m charge in respect of the fair value movements on interest rate swaps which were previously deferred in equity as cash flow hedges but became ineffective following the issue of the group's fixed rate £250m senior public bonds on 23 October 2009 and the consequent repayments on the group's revolving floating rate bank facilities (see note 16); and
- a £2.4m credit reflecting the 2.5% discount in respect of the repurchase of £94.0m of the group's subordinated loan notes on 23 October 2009 (see note 21(f)).

The credit of £0.5m (2008: charge of £0.4m) in respect of net hedge ineffectiveness and other fair value movements comprises:

- a charge of £0.5m (2008: credit of £0.3m) in respect of the fair value movement on the fair value portion of the 2004 cross-currency swaps (see note 16(b)); and
- a credit of £1.0m (2008: charge of £0.7m) relating to derivatives that became ineffective in the year (see note 16(b)).

4 Profit before taxation

	Group 2009 £m	Group 2008 £m
Profit before taxation is stated after charging/(crediting):		
Amortisation of other intangible assets:		
– computer software (note 11)	3.8	1.7
Depreciation of property, plant and equipment (note 12)	8.2	7.5
Loss on disposal of property, plant and equipment (note 12)	0.3	0.3
Operating lease rentals:		
– property	8.5	6.3
Share-based payment charge (note 25)	6.1	4.7
Employment costs (note 9(c))	122.6	114.5
Retirement benefit charge/(credit) (note 18)	2.7	(1.2)
Impairment of amounts receivable from customers (note 14)	283.4	237.7

4 Profit before taxation – continued

	Group	
	2009 £m	2008 £m
Auditors' remuneration		
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	0.1	0.1
Fees payable to the company's auditor and its associates for other services:		
– audit of company's subsidiaries pursuant to legislation	0.2	0.2
– other services pursuant to legislation	0.2	0.1
– tax services	–	0.1
Total auditors' remuneration	0.5	0.5

5 Tax charge

	Group	
	2009	2008
Tax charge in the income statement	£m	£m
Current tax	(34.8)	(32.6)
Deferred tax (note 19)	(2.3)	(4.1)
Total tax charge	(37.1)	(36.7)

The tax charge includes a charge of £0.7m in respect of the exceptional finance cost (see note 3).

	Group	
	2009	2008
Tax credit on items taken directly to equity	£m	£m
Current tax credit on cash flow hedges	0.2	4.9
Deferred tax credit on actuarial movements on retirement benefit asset	10.4	4.8
Total tax credit on items taken directly to equity	10.6	9.7

The rate of tax charge on the profit before taxation and exceptional finance cost for the year is in line with (2008: in line with) the average standard rate of corporation tax in the UK of 28.0% (2008: 28.5%). This can be reconciled as follows:

	Group	
	2009 £m	2008 £m
Profit before taxation and exceptional finance cost	130.1	128.8
Profit before taxation and exceptional finance cost multiplied by the average standard rate of corporation tax in the UK of 28.0% (2008: 28.5%)	(36.4)	(36.7)
Effects of:		
– adjustment in respect of prior years	0.1	0.1
– expenses not deductible for tax purposes	(0.1)	(0.1)
Total tax charge before exceptional finance cost	(36.4)	(36.7)

6 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, which are treated, for this purpose, as being cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For share options and awards, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options and awards. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and awards.

Reconciliations of basic and diluted earnings per share are set out below:

Group	2009 Earnings £m	2009 Weighted average number of shares m	2009 Per share amount pence	2008 Earnings £m	2008 Weighted average number of shares m	2008 Per share amount pence
Earnings per share						
Shares in issue during the year		133.1			131.3	
Own shares held		(1.9)			(1.4)	
Basic earnings per share	88.6	131.2	67.5	92.1	129.9	70.9
Dilutive effect of share options and awards	–	0.4	(0.2)	–	0.7	(0.4)
Diluted earnings per share	88.6	131.6	67.3	92.1	130.6	70.5

The directors have elected to show an adjusted earnings per share prior to the exceptional finance cost incurred on issue of the senior public bonds on 23 October 2009 (see note 3). This is presented to show the earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted earnings per share to adjusted basic and diluted earnings per share is as follows:

Group	2009 Earnings £m	2009 Weighted average number of shares m	2009 Per share amount pence	2008 Earnings £m	2008 Weighted average number of shares m	2008 Per share amount pence
Basic earnings per share	88.6	131.2	67.5	92.1	129.9	70.9
Exceptional finance cost including tax charge	5.1	–	3.9	–	–	–
Adjusted basic earnings per share	93.7	131.2	71.4	92.1	129.9	70.9
Diluted earnings per share	88.6	131.6	67.3	92.1	130.6	70.5
Exceptional finance cost including tax charge	5.1	–	3.9	–	–	–
Adjusted diluted earnings per share	93.7	131.6	71.2	92.1	130.6	70.5

7 Dividends

		Group and company 2009 £m	Group and company 2008 £m
2007 final	– 38.1p per share	–	50.0
2008 interim	– 25.4p per share	–	33.4
2008 final	– 38.1p per share	50.6	–
2009 interim	– 25.4p per share	33.5	–
Dividends paid		84.1	83.4

The directors are recommending a final dividend in respect of the financial year ended 31 December 2009 of 38.1p per share which will amount to a dividend payment of £51.2m. If approved by the shareholders at the annual general meeting on 5 May 2010, this dividend will be paid on 21 June 2010 to shareholders who are on the register of members at 14 May 2010. This dividend is not reflected in the balance sheet as at 31 December 2009 as it is subject to shareholder approval.

8 Directors' remuneration

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24, 'Related party disclosures'. Further information in respect of directors' remuneration, share options and awards, pension contributions and pension entitlements is set out in the directors' remuneration report on pages 65 to 74.

	Group and company	
	2009 £m	2008 £m
Short-term employee benefits	2.3	3.6
Post-employment benefits	0.5	0.4
Share-based payment charge	2.4	1.6
Total	5.2	5.6

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year. Post-employment benefits represent the sum of: (i) the increase in the transfer value of the accrued pension benefits (less directors' contributions) for those directors who are members of the group's defined benefit pension scheme; and (ii) company contributions into personal pension arrangements for all other directors. The share-based payment charge is the proportion of the group's share-based payment charge that relates to those options and awards granted to the directors.

9 Employee information

(a) The average monthly number of persons employed by the group (including directors) was as follows:

	Group	
	2009 Number	2008 Number
Consumer Credit Division	3,192	2,959
Vanquis Bank	446	358
Yes Car Credit	9	22
Central	51	45
Total group	3,698	3,384
Analysed as:		
Full-time	3,154	2,856
Part-time	544	528
Total group	3,698	3,384

(b) The average monthly number of persons employed by the company (including directors) was as follows:

	Company	
	2009 Number	2008 Number
Total company	51	45

(c) Employment costs – all employees (including directors)

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Aggregate gross wages and salaries paid to the group's employees	100.4	98.9	4.9	5.1
Employers' National Insurance contributions	10.2	10.5	0.6	0.6
Pension charge/(credit)	5.9	0.4	1.1	(0.2)
Share-based payment charge (note 25)	6.1	4.7	2.9	2.1
Total	122.6	114.5	9.5	7.6

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan and contributions to personal pension arrangements.

10 Goodwill

	Group	
	2009 £m	2008 £m
Cost		
At 1 January	94.1	94.1
Disposals	(3.1)	–
Additions	2.1	–
At 31 December	93.1	94.1
Accumulated amortisation		
At 1 January and 31 December	91.0	91.0
Net book value at 31 December	2.1	3.1
Net book value at 1 January	3.1	3.1

The cost of goodwill at 1 January 2009 comprised £91.0m in respect of the closed Yes Car Credit business and £2.1m in respect of Cheque Exchange Limited, a small subsidiary undertaking within the Consumer Credit Division involved in cheque cashing and money transfer. The goodwill in respect of Yes Car Credit was fully impaired following the announcement of the closure of the business in December 2005.

On 30 January 2009, the group completed the disposal of Cheque Exchange Limited to Hertford International Group plc for a total consideration of £3.0m less the value of the Section 75 pension contribution made into the group's defined benefit pension scheme. There was no gain or loss on disposal as follows:

Group	£m
Cash consideration	0.7
Section 75 pension contribution	0.4
Deferred consideration	1.9
Total consideration	3.0
Net liabilities on disposal	0.1
Goodwill written off	(3.1)
Profit/(loss) on disposal	–

The Section 75 pension contribution represented a payment by Cheque Exchange Limited of £0.6m, less tax relief of £0.2m, into the group's defined benefit pension scheme as a reduction in the total consideration received (see note 18).

The deferred consideration of £1.9m comprised £1.4m payable on 31 July 2009 with the remaining £0.5m due in equal instalments on 31 January 2010 and 31 January 2011. The group held a legal charge over the ordinary shares in Cheque Exchange Limited in the event of non-payment of the amount due on 31 July 2009.

Following non-payment of the first instalment of the deferred consideration, the group exercised its charge over the ordinary shares and regained control of Cheque Exchange Limited on 1 November 2009. The goodwill arising on reacquisition can be analysed as follows:

Group	£m
Deferred consideration foregone	1.9
Fair value of net liabilities acquired	0.2
Goodwill on reacquisition	2.1

The trading results and cashflows of Cheque Exchange Limited prior to its disposal and following its reacquisition are not material to the group.

Financial statements

11 Other intangible assets

Group	Computer software 2009 £m	Computer software 2008 £m
Cost		
At 1 January	23.5	17.3
Additions	6.2	6.2
Disposals	(0.7)	–
At 31 December	29.0	23.5
Accumulated amortisation		
At 1 January	6.4	4.7
Charged to the income statement	3.8	1.7
Disposals	(0.7)	–
At 31 December	9.5	6.4
Net book value at 31 December	19.5	17.1
Net book value at 1 January	17.1	12.6

12 Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2009	4.2	0.8	67.2	72.2
Additions	–	0.1	7.1	7.2
Disposals	–	(0.2)	(4.6)	(4.8)
Disposal of business (note 10)	–	–	(0.5)	(0.5)
Acquisition of business (note 10)	–	–	0.5	0.5
At 31 December 2009	4.2	0.7	69.7	74.6
Accumulated depreciation				
At 1 January 2009	1.4	0.5	41.7	43.6
Charged to the income statement	0.1	0.1	8.0	8.2
Disposals	–	(0.2)	(3.4)	(3.6)
Disposal of business (note 10)	–	–	(0.4)	(0.4)
Acquisition of business (note 10)	–	–	0.5	0.5
At 31 December 2009	1.5	0.4	46.4	48.3
Net book value at 31 December 2009	2.7	0.3	23.3	26.3
Net book value at 1 January 2009	2.8	0.3	25.5	28.6

The loss on disposal of property, plant and equipment in 2009 amounted to £0.3m (2008: £0.3m) and represented proceeds received of £0.9m (2008: £0.8m) less the net book value of disposals of £1.2m (2008: £1.1m).

12 Property, plant and equipment – continued

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2008	4.2	0.9	61.0	66.1
Additions	–	0.1	8.4	8.5
Disposals	–	(0.2)	(2.2)	(2.4)
At 31 December 2008	4.2	0.8	67.2	72.2
Accumulated depreciation				
At 1 January 2008	1.3	0.4	35.7	37.4
Charged to the income statement	0.1	0.2	7.2	7.5
Disposals	–	(0.1)	(1.2)	(1.3)
At 31 December 2008	1.4	0.5	41.7	43.6
Net book value at 31 December 2008	2.8	0.3	25.5	28.6
Net book value at 1 January 2008	2.9	0.5	25.3	28.7

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2009	4.2	0.2	2.3	6.7
Additions	–	–	0.4	0.4
Disposals	–	–	(0.7)	(0.7)
At 31 December 2009	4.2	0.2	2.0	6.4
Accumulated depreciation				
At 1 January 2009	1.4	0.1	1.5	3.0
Charged to the income statement	0.1	–	0.3	0.4
Disposals	–	–	(0.6)	(0.6)
At 31 December 2009	1.5	0.1	1.2	2.8
Net book value at 31 December 2009	2.7	0.1	0.8	3.6
Net book value at 1 January 2009	2.8	0.1	0.8	3.7

The loss on disposal of property, plant and equipment in 2009 amounted to £0.1m (2008: £0.1m) and represented proceeds received of £nil (2008: £nil) less the net book value of disposals of £0.1m (2008: £0.1m).

12 Property, plant and equipment – continued

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2008	4.2	0.2	2.1	6.5
Additions	–	–	0.6	0.6
Disposals	–	–	(0.4)	(0.4)
At 31 December 2008	4.2	0.2	2.3	6.7
Accumulated depreciation				
At 1 January 2008	1.3	0.1	1.5	2.9
Charged to the income statement	0.1	–	0.3	0.4
Disposals	–	–	(0.3)	(0.3)
At 31 December 2008	1.4	0.1	1.5	3.0
Net book value at 31 December 2008	**2.8**	**0.1**	**0.8**	**3.7**
Net book value at 1 January 2008	2.9	0.1	0.6	3.6

13 Investment in subsidiaries

	Company 2009 £m	Company 2008 £m
Cost		
At 1 January	402.8	389.7
Additions	3.2	13.1
At 31 December	406.0	402.8
Accumulated impairment losses		
At 1 January	31.7	32.1
Credited to the income statement	–	(0.4)
At 31 December	31.7	31.7
Total cost less accumulated impairment losses at 31 December	**374.3**	**371.1**

The additions to investments in 2009 represent £3.2m in respect of options and awards over Provident Financial plc shares which had been granted/awarded to employees of subsidiary companies (2008: £2.6m). The other additions to investments in 2008 represented a further £7.0m investment in the equity of Vanquis Bank Limited and £3.5m in respect of the transfer of Direct Auto Financial Services Limited and other non-trading subsidiaries from a subsidiary undertaking.

The impairment credit in 2008 represented the reversal of prior year impairment losses in respect of the companies forming Yes Car Credit.

The directors consider the value of investments to be supported by their underlying assets.

13 Investment in subsidiaries – continued

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the group. A full list of subsidiary undertakings will be annexed to the next annual return of the company to be filed with the Registrar of Companies. All subsidiaries are consolidated and are held by wholly-owned intermediate companies, except for those noted below, which are held directly by the company.

		Country of incorporation or registration	Class of capital	% holding
Consumer Credit Division	Provident Financial Management Services Limited	England	Ordinary	100*
	Provident Personal Credit Limited	England	Ordinary	100
	Greenwood Personal Credit Limited	England	Ordinary	100
Vanquis Bank	Vanquis Bank Limited	England	Ordinary	100*
Yes Car Credit	Direct Auto Financial Services Limited	England	Ordinary	100*
Central	Provident Investments plc	England	Ordinary	100*

* Shares held directly.

The above companies operate principally in their country of incorporation or registration.

14 Amounts receivable from customers

			2009			2008
Group	Due within one year £m	Due in more than one year £m	Total £m	Due within one year £m	Due in more than one year £m	Total £m
Consumer Credit Division	796.9	86.9	883.8	768.4	83.7	852.1
Vanquis Bank	255.5	–	255.5	205.4	–	205.4
Yes Car Credit	–	–	–	5.8	–	5.8
Total group	1,052.4	86.9	1,139.3	979.6	83.7	1,063.3

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows receivable discounted at the effective interest rate. The average effective interest rate for the year ended 31 December 2009 was 100% for the Consumer Credit Division (2008: 100%), 40% for Vanquis Bank (2008: 38%) and 23% for Yes Car Credit (2008: 21%).

The average period to maturity of the amounts receivable from customers within the Consumer Credit Division is 6.2 months (2008: 6.5 months) and within Yes Car Credit is nil months (2008: 4.1 months). Within Vanquis Bank, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is the higher of £5 or 4.5% of their outstanding balance.

The fair value of amounts receivable from customers is approximately £1.4 billion (2008: £1.3 billion). Fair value has been derived by discounting expected future cash flows (net of collection costs) at the group's weighted average cost of capital at the balance sheet date. This value approximates to market value.

The credit quality of amounts receivable from customers is as follows:

	Group	
Credit quality of amounts receivable from customers	2009 £m	2008 £m
Neither past due nor impaired	545.4	504.7
Past due but not impaired	129.5	113.8
Impaired	464.4	444.8
Total	1,139.3	1,063.3

Past due but not impaired balances all relate to home credit loans within the Consumer Credit Division. There are no accounts/loans within Vanquis Bank, Yes Car Credit or in respect of the unsecured direct repayment loans within the Consumer Credit Division which are past due but not impaired. In the home credit business of the Consumer Credit Division, past due but not impaired balances relate to loans which are contractually overdue. However, contractually overdue loans are not deemed to be impaired unless the customer has missed two or more cumulative weekly payments in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate significantly.

14 Amounts receivable from customers – continued

The following table sets out the ageing analysis of past due but not impaired balances within the home credit business of the Consumer Credit Division based on contractual arrears since the inception of the loan:

		Group
Ageing analysis of past due but not impaired balances	2009 £m	2008 £m
One week overdue	75.7	65.4
Two weeks overdue	27.4	23.4
Three weeks or more overdue	26.4	25.0
Past due but not impaired	129.5	113.8

The group holds collateral of £nil (2008: £2.3m) as security in respect of the Yes Car Credit amounts receivable from customers. In the event of default by the customer, the proceeds from disposal of the motor vehicle originally financed are used to offset amounts due from the customer.

Impairment in Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The movement in the allowance account during the year is as follows:

		Group
Vanquis Bank allowance account	2009 £m	2008 £m
At 1 January	26.4	19.9
Charge for the year	61.7	38.2
Amounts written off during the year	(57.2)	(40.9)
Amounts recovered during the year	9.1	9.2
At 31 December	40.0	26.4

Within the Consumer Credit Division and Yes Car Credit, impairments are deducted directly from amounts receivable from customers without the use of an allowance account.

The impairment charge in respect of amounts receivable from customers reflected within operating costs can be analysed as follows:

		Group
Impairment charge/(credit) on amounts receivable from customers	2009 £m	2008 £m
Consumer Credit Division	223.4	197.9
Vanquis Bank	61.7	38.2
Yes Car Credit	(1.7)	1.6
Total group	283.4	237.7

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

		Group
Interest income recognised on impaired amounts receivable from customers	2009 £m	2008 £m
Consumer Credit Division	329.5	309.3
Vanquis Bank	14.8	12.0
Yes Car Credit	0.1	0.9
Total group	344.4	322.2

The currency profile of amounts receivable from customers is as follows:

		Group
Currency profile of amounts receivable from customers	2009 £m	2008 £m
Sterling	1,088.8	1,011.7
Euro	50.5	51.6
Total group	1,139.3	1,063.3

15 Financial instruments

The following table sets out the carrying value of the group's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

					2009
Group	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
Assets					
Cash and cash equivalents	20.3	–	–	–	20.3
Amounts receivable from customers	1,139.3	–	–	–	1,139.3
Derivative financial instruments	–	–	12.5	–	12.5
Trade and other receivables	28.2	–	–	–	28.2
Retirement benefit asset	–	–	–	19.9	19.9
Property, plant and equipment	–	–	–	26.3	26.3
Intangible assets (including goodwill)	–	–	–	21.6	21.6
Deferred and current tax assets	–	–	–	7.7	7.7
Total assets	1,187.8	–	12.5	75.5	1,275.8
Liabilities					
Bank and other borrowings	–	(890.3)	–	–	(890.3)
Derivative financial instruments	–	–	(29.1)	–	(29.1)
Trade and other payables	–	(48.0)	–	–	(48.0)
Deferred and current tax liabilities	–	–	–	(39.2)	(39.2)
Provisions	–	–	–	(0.8)	(0.8)
Total liabilities	–	(938.3)	(29.1)	(40.0)	(1,007.4)

					2008
Group	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
Assets					
Cash and cash equivalents	19.5	–	–	–	19.5
Amounts receivable from customers	1,063.3	–	–	–	1,063.3
Derivative financial instruments	–	–	28.9	–	28.9
Trade and other receivables	15.1	–	–	–	15.1
Retirement benefit asset	–	–	–	50.9	50.9
Property, plant and equipment	–	–	–	28.6	28.6
Intangible assets (including goodwill)	–	–	–	20.2	20.2
Total assets	1,097.9	–	28.9	99.7	1,226.5
Liabilities					
Bank and other borrowings	–	(828.5)	–	–	(828.5)
Derivative financial instruments	–	–	(20.8)	–	(20.8)
Trade and other payables	–	(64.0)	–	–	(64.0)
Deferred and current tax liabilities	–	–	–	(33.3)	(33.3)
Provisions	–	–	–	(2.0)	(2.0)
Total liabilities	–	(892.5)	(20.8)	(35.3)	(948.6)

15 Financial instruments – continued

The following table sets out the carrying value of the company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39:

Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
					2009
Assets					
Investment in subsidiaries	–	–	–	374.3	374.3
Trade and other receivables	1,339.1	–	–	–	1,339.1
Retirement benefit asset	–	–	–	6.1	6.1
Property, plant and equipment	–	–	–	3.6	3.6
Deferred and current tax assets	–	–	–	7.6	7.6
Total assets	1,339.1	–	–	391.6	1,730.7
Liabilities					
Bank and other borrowings	–	(547.9)	–	–	(547.9)
Derivative financial instruments	–	–	(26.5)	–	(26.5)
Trade and other payables	–	(257.9)	–	–	(257.9)
Total liabilities	–	(805.8)	(26.5)	–	(832.3)

Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
					2008
Assets					
Cash and cash equivalents	0.5	–	–	–	0.5
Investments in subsidiaries	–	–	–	371.1	371.1
Trade and other receivables	1,301.2	–	–	–	1,301.2
Retirement benefit asset	–	–	–	16.1	16.1
Property, plant and equipment	–	–	–	3.7	3.7
Deferred and current tax assets	–	–	–	1.3	1.3
Total assets	1,301.7	–	–	392.2	1,693.9
Liabilities					
Bank and other borrowings	–	(469.2)	–	–	(469.2)
Derivative financial instruments	–	–	(20.1)	–	(20.1)
Trade and other payables	–	(247.0)	–	–	(247.0)
Deferred and current tax liabilities	–	–	–	(12.3)	(12.3)
Total liabilities	–	(716.2)	(20.1)	(12.3)	(748.6)

16 Derivative financial instruments

The group uses derivative financial instruments to hedge the interest rate risk and foreign exchange rate risk on its borrowings. The group does not enter into speculative transactions or positions.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

Group		2009 Contractual /notional amount £m	2009 Assets £m	2009 Liabilities £m	2008 Contractual /notional amount £m	2008 Assets £m	2008 Liabilities £m
Interest rate swaps		1,361.0	–	(24.6)	1,488.5	–	(20.0)
Cross-currency swaps		164.8	12.5	(4.4)	164.8	28.9	(0.1)
Foreign exchange contracts		3.0	–	(0.1)	5.5	–	(0.7)
Total group		1,528.8	12.5	(29.1)	1,658.8	28.9	(20.8)
Analysed as	– due within one year		–	(18.4)		–	(4.7)
	– due in more than one year		12.5	(10.7)		28.9	(16.1)
			12.5	(29.1)		28.9	(20.8)

Company		2009 Contractual /notional amount £m	2009 Assets £m	2009 Liabilities £m	2008 Contractual /notional amount £m	2008 Assets £m	2008 Liabilities £m
Interest rate swaps		1,361.0	–	(24.6)	1,488.5	–	(20.0)
Cross-currency swaps		16.4	–	(1.9)	16.4	–	(0.1)
Total company		1,377.4	–	(26.5)	1,504.9	–	(20.1)
Analysed as	– due within one year		–	(17.4)		–	(4.0)
	– due in more than one year		–	(9.1)		–	(16.1)
			–	(26.5)		–	(20.1)

The fair value of derivative financial instruments has been calculated by discounting contractual future cash flows using relevant market interest rate yield curves and forward foreign exchange rates prevailing at the balance sheet date.

(a) Hedging reserve movements
The movement in the hedging reserve within equity as a result of the changes in the fair value of derivative financial instruments can be summarised as follows:

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Interest rate swaps	1.2	(20.0)	1.2	(20.0)
2001 cross-currency swaps	(0.3)	0.3	(0.3)	0.3
2003 cross-currency swaps	(1.6)	1.7	–	–
2004 cross-currency swaps	(0.7)	1.4	–	–
Foreign exchange contracts	0.6	(0.7)	–	–
Net (charge)/credit to the hedging reserve	(0.8)	(17.3)	0.9	(19.7)

The net (charge)/credit to the group and company hedging reserve in 2009 includes £6.8m (2008: £nil) of previously deferred losses which were recycled and reported as part of the exceptional finance cost in the year (see note 3).

Under IFRS 7, 'Financial instruments: Disclosures', all derivative financial instruments are classed as Level 2 as they are not traded in an active market and the fair value is therefore determined through discounting future cash flows.

16 Derivative financial instruments – continued

(b) Income statement charges

The net credit/(charge) to the income statement in the year in respect of the movement in the fair value of derivative financial instruments is as follows:

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Net fair value (loss)/gain on 2004 cross-currency swaps	(0.5)	0.3	–	–
Movement in fair value of ineffective interest rate swaps	1.0	(0.7)	1.0	(0.7)
Net credit/(charge) to the income statement prior to exceptional finance cost (note 3)	0.5	(0.4)	1.0	(0.7)
Exceptional finance cost – recycling of previously deferred losses (note 3)	(6.8)	–	(6.8)	–
Net charge to the income statement	(6.3)	(0.4)	(5.8)	(0.7)

(c) Interest rate swaps

The group and company use interest rate swaps in order to manage the interest rate risk on the group's syndicated and bilateral bank borrowings. In the year ended 31 December 2009, the group entered into various interest rate swaps which have been designated and were effective under IAS 39 as cash flow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

	Group and company	
	2009 £m	2008 £m
(Liability)/asset at 1 January	(20.0)	0.7
Credited/(charged) to the hedging reserve	1.2	(20.0)
Movement in fair value of ineffective interest rate swaps credited/(charged) to the income statement	1.0	(0.7)
Exceptional finance cost – recycling of previously deferred losses (note 3)	(6.8)	–
Liability at 31 December	(24.6)	(20.0)

The weighted average interest rate and period to maturity of the interest rate swaps held by the group and company were as follows:

	2009			2008		
Group	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity (years)	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity (years)
Sterling	4.2	3.1-5.2	1.2	4.4	3.2–5.2	1.9
Euro	3.8	3.8	1.7	3.8	3.8	0.6

	2009			2008		
Company	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity (years)	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity (years)
Sterling	4.2	3.1-5.2	1.2	4.4	3.2–5.2	1.9
Euro	3.8	3.8	1.7	3.8	3.8	0.6

16 Derivative financial instruments – continued

(d) Cross-currency swaps
The group and company use cross-currency swaps in order to manage the interest rate and foreign exchange rate risk arising on the group's US private placement loan notes issued in 2001, 2003 and 2004.

2001 and 2003 private placement loan notes
The group and company have put in place cross-currency swaps to swap the principal and fixed rate interest of the 2001 and 2003 US dollar private placement loan notes into fixed rate sterling liabilities. The maturity dates of the cross-currency swaps match the underlying loan notes (see note 21(e)). These swaps were designated and were effective under IAS 39 as cash flow hedges in the year ended 31 December 2009 and the fair value movements in the swaps and the corresponding exchange movements on the underlying loan notes have been deferred in the hedging reserve within equity.

The cross-currency swaps used to hedge the 2001 US dollar private placement loan notes have a weighted average interest rate of 7.6% (2008: 7.6%), a range of interest rates of 7.6% (2008: 7.6%) and a weighted average period to maturity of 1.4 years (2008: 2.4 years). The movement in the fair value of the swaps can be analysed as follows:

	Group and company	
	2009 £m	2008 £m
Liability at 1 January	(0.1)	(17.1)
Exchange rate movements	(1.5)	16.7
(Charged)/credited to the hedging reserve	(0.3)	0.3
Liability at 31 December	(1.9)	(0.1)

The exchange rate movements reflect the movement in the year of the difference between the translation of the 2001 US dollar private placement loan notes at the year end exchange rate compared to the contracted rate. A corresponding entry is made to borrowings.

The amount (charged)/credited to the hedging reserve reflects the difference between the movement in the fair value of the cross-currency swaps and the exchange rate movements described above.

The cross-currency swaps used to hedge the 2003 US dollar private placement loan notes have a weighted average interest rate of 6.7% (2008: 6.7%), a range of interest rates of 6.6% to 6.8% (2008: 6.6% to 6.8%) and a weighted average period to maturity of 2.2 years (2008: 3.2 years). The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2009 £m	2008 £m
Asset/(liability) at 1 January	6.8	(16.5)
Exchange rate movements	(7.7)	21.6
(Charged)/credited to the hedging reserve	(1.6)	1.7
(Liability)/asset at 31 December	(2.5)	6.8

The exchange rate movements reflect the movement in the year of the difference between the translation of the 2003 US dollar private placement loan notes at the year end exchange rate compared to the contracted rate. A corresponding entry is made to borrowings.

The amount (charged)/credited to the hedging reserve reflects the difference between the movement in the fair value of the cross-currency swaps and the exchange rate movements described above.

2004 private placement loan notes
The group has put in place cross-currency swaps to swap the principal and fixed rate interest of the US dollar private placement loan notes issued in 2004 into floating rate sterling interest liabilities. The maturity dates of the cross-currency swaps match the underlying loan notes (see note 21(e)).

The swaps comprise both cash flow hedges and fair value hedges. The cash flow hedge portion of the swaps were designated and were effective under IAS 39 as cash flow hedges in the year and the movements in the swaps and the exchange movements in the underlying loan notes have been deferred in the hedging reserve within equity.

The fair value hedge portion of the swaps were designated and were effective under IAS 39 as fair value hedges during the year. As a result, fair value movements in the swaps were (charged)/credited to the income statement with a corresponding entry made to the underlying loan notes within borrowings for the effective portion of the swaps, leaving a net (charge)/credit within the income statement reflecting the net fair value (loss)/gain on the fair value hedge in the year.

The swaps have a range of interest rates from LIBOR + 1.58% to LIBOR + 1.63% (2008: LIBOR + 1.58% to LIBOR + 1.63%) and a weighted average period to maturity of 3.7 years (2008: 4.7 years).

16 Derivative financial instruments – continued

The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2009 £m	2008 £m
Asset/(liability) at 1 January	22.1	(3.2)
Exchange rate movements	(8.4)	23.6
Net fair value (loss)/gain (charged)/credited to the income statement	(0.5)	0.3
(Charged)/credited to the hedging reserve	(0.7)	1.4
Asset at 31 December	12.5	22.1

The exchange rate movements reflect the movement in the year of the difference between the translation of the 2004 US dollar private placement loan notes at the year end exchange rate compared to the contracted rate. A corresponding entry is made to borrowings.

The amount (charged)/credited to the hedging reserve reflects the difference between the movement in the fair value of the cash flow hedge portion of the cross-currency swaps and the cash flow hedge portion of the exchange rate movements described above.

The net fair value (loss)/gain (charged)/credited to the income statement reflects the difference between the movement in the fair value of the fair value hedge portion of the cross-currency swaps and the fair value hedge portion of the exchange rate movements described above.

(e) Foreign exchange contracts
The group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from the group's operations in the Republic of Ireland. A liability of £0.1m is held in the group balance sheet as at 31 December 2009 in respect of foreign exchange contracts (2008: liability of £0.7m).

The group's foreign exchange contracts comprise forward foreign exchange contracts to buy sterling for a total notional amount of £3.0m (2008: £5.5m). These contracts have a range of maturity dates from 11 February 2010 to 12 July 2010 (2008: 11 February 2009 to 11 November 2009). These contracts were designated and were effective under IAS 39 as cash flow hedges in the year and, accordingly, the movement in fair value of £0.6m has been credited to the hedging reserve within equity (2008: charge of £0.7m).

17 Trade and other receivables

	Company	
Non-current assets	2009 £m	2008 £m
Amounts owed by group undertakings	438.0	438.0

There are no amounts past due and there is no impairment provision held against amounts owed by group undertakings due for repayment in more than one year (2008: £nil). The amounts owed by group undertakings are unsecured, due for repayment in more than one year and accrue interest at rates linked to LIBOR.

	Group		Company	
Current assets	2009 £m	2008 £m	2009 £m	2008 £m
Trade receivables	0.6	0.6	–	–
Other receivables	13.9	2.5	–	–
Amounts owed by group undertakings	–	–	895.1	860.8
Prepayments and accrued income	13.7	12.0	6.0	2.4
Total	28.2	15.1	901.1	863.2

There are no amounts past due in respect of trade and other receivables due in less than one year (2008: £nil). Within the company, an impairment provision of £122.1m (2008: £126.8m) is held against amounts owed by group undertakings due in less than one year representing the deficiency in the net assets of those group undertakings. The movement in the provision in the year of £4.7m has been credited to the income statement of the company (2008: charge of £3.6m).

Amounts owed by group undertakings are unsecured, repayable on demand and accrue interest at rates linked to LIBOR.

The maximum exposure to credit risk of trade and other receivables is the carrying value of each class of receivable set out above (2008: carrying value set out above). There is no collateral held in respect of trade and other receivables (2008: £nil). The fair value of trade and other receivables equates to their book value (2008: fair value equalled book value).

18 Retirement benefit asset

(a) Pension schemes – defined benefit

The group operates a defined benefit scheme; the Provident Financial Staff Pension Scheme. The scheme covers 63% of employees with company-provided pension arrangements and is of the funded, defined benefit type providing retirement benefits based on final salary. Following a full group review of pension scheme arrangements, from 1 April 2006 members were provided with a choice of paying higher member contributions to continue accruing benefits based on final salary or paying a lower member contribution and accruing benefits based on a percentage of salary which would be revalued each year.

The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation was carried out as at 1 June 2006 by a qualified independent actuary. A valuation as at 1 June 2009 is currently in progress but is not yet finalised. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the preliminary results of the 2009 valuation updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

The net retirement benefit asset recognised in the balance sheet of the group is as follows:

				Group
		2009		2008
	£m	%	£m	%
Equities	217.4	47	177.7	43
Corporate bonds	154.3	33	121.2	30
Fixed interest gilts	37.3	8	38.2	9
Index-linked gilts	55.0	12	51.0	12
Cash and money market funds	0.6	–	22.6	6
Total fair value of scheme assets	464.6	100	410.7	100
Present value of funded defined benefit obligations	(444.7)		(359.8)	
Net retirement benefit asset recognised in the balance sheet	19.9		50.9	

The net retirement benefit asset recognised in the balance sheet of the company is as follows:

				Company
		2009		2008
	£m	%	£m	%
Equities	54.7	47	43.2	43
Corporate bonds	38.8	33	29.5	30
Fixed interest gilts	9.4	8	9.3	9
Index-linked gilts	13.8	12	12.4	12
Cash and money market funds	0.1	–	5.5	6
Total fair value of scheme assets	116.8	100	99.9	100
Present value of funded defined benefit obligations	(110.7)		(83.8)	
Net retirement benefit asset recognised in the balance sheet	6.1		16.1	

The assets and liabilities of the group's defined benefit pension scheme have been allocated between subsidiary companies on a pro-rata basis based upon the actual employer cash contributions made by each subsidiary company.

18 Retirement benefit asset – continued

The amounts recognised in the income statement were as follows:

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Current service cost	(5.1)	(5.7)	(1.6)	(1.8)
Past service cost	(0.1)	–	–	–
Interest cost	(22.4)	(22.9)	(7.2)	(7.3)
Expected return on scheme assets	24.9	29.8	7.9	9.5
Net (charge)/credit recognised in the income statement	(2.7)	1.2	(0.9)	0.4

The net (charge)/credit recognised in the income statement of the group has been included within administrative expenses.

Movements in the fair value of scheme assets were as follows:

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Fair value of scheme assets at 1 January	410.7	465.7	99.9	117.4
Expected return on scheme assets	24.9	29.8	7.9	9.5
Actuarial movement on scheme assets	29.9	(78.9)	10.6	(24.5)
Contributions by the group/company	8.4	5.3	1.5	1.1
Section 75 contribution on disposal of subsidiary undertaking (note 10)	0.6	–	–	–
Contributions paid by scheme participants	0.6	2.5	0.2	0.8
Net benefits paid out	(10.5)	(13.7)	(3.3)	(4.4)
Fair value of scheme assets at 31 December	464.6	410.7	116.8	99.9

The expected contributions to the defined benefit pension scheme in the year ending 31 December 2010 are £9m.

Movements in the present value of the defined benefit obligation were as follows:

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Defined benefit obligation at 1 January	(359.8)	(404.2)	(83.8)	(97.9)
Current service cost	(5.1)	(5.7)	(1.6)	(1.8)
Past service cost	(0.1)	–	–	–
Interest cost	(22.4)	(22.9)	(7.2)	(7.3)
Contributions paid by scheme participants	(0.6)	(2.5)	(0.2)	(0.8)
Actuarial movement on scheme liabilities	(67.2)	61.8	(21.2)	19.6
Net benefits paid out	10.5	13.7	3.3	4.4
Defined benefit obligation at 31 December	(444.7)	(359.8)	(110.7)	(83.8)

18 Retirement benefit asset – continued

The principal actuarial assumptions used at the balance sheet date were as follows:

		Group and company	
		2009 %	2008 %
Price inflation		3.60	2.90
Rate of increase in pensionable salaries		4.60	4.20
Rate of increase to pensions in payment		3.60	2.90
Discount rate		5.60	6.30
Long-term rate of return	– equities	8.05	8.15
	– bonds	5.60	6.00
	– fixed interest gilts	4.40	3.80
	– index-linked gilts	4.40	3.80
	– cash and money market funds	4.50	3.80
	– overall (weighted average)	6.50	6.33

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect anticipated long-term real rates of return.

IAS 19 requires that the discount rate should be determined by reference to market yields at the balance sheet date on high quality corporate bonds and that the term of the instruments chosen should be consistent with the estimated term of the defined benefit obligations. In the UK, this is usually interpreted to mean the yield on AA-rated corporate bonds of an appropriate term. A movement of 0.1% in the discount rate would increase or decrease the retirement benefit asset by approximately £9m (2008: £8m).

The mortality assumptions used in the valuation of the defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy. The group now uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- The projections are combined with the medium cohort improvement factors in order to predict future improvements in life expectancy, subject to an annual minimum rate of improvement of 1%.

In more simple terms, it is now assumed that members who retire in the future at age 65 will live on average for a further 23 years if they are male (2008: 22 years) and for a further 25 years if they are female (2008: 25 years). If assumed life expectancies had been one year greater for the scheme, the retirement benefit asset would have been reduced by approximately £14m (2008: £10m).

The actual return on scheme assets compared to the expected return is as follows:

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Expected return on scheme assets	24.9	29.8	7.9	9.5
Actuarial movement on scheme assets	29.9	(78.9)	10.6	(24.5)
Actual return on scheme assets	54.8	(49.1)	18.5	(15.0)

Financial statements

18 Retirement benefit asset – continued

Actuarial gains and losses are recognised through the statement of comprehensive income in the period in which they occur.

An analysis of the amounts recognised in the statement of comprehensive income is as follows:

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Actuarial movement on scheme assets	29.9	(78.9)	10.6	(24.5)
Actuarial movement on scheme liabilities	(67.2)	61.8	(21.2)	19.6
Total loss recognised in the statement of comprehensive income in the year	(37.3)	(17.1)	(10.6)	(4.9)
Cumulative amount of losses recognised in the statement of comprehensive income	(62.8)	(25.5)	(19.6)	(9.0)

The history of the net retirement benefit asset/(liability) recognised in the balance sheet and experience adjustments for the group is as follows:

					Group
	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	464.6	410.7	465.7	467.9	331.1
Present value of funded defined benefit obligation	(444.7)	(359.8)	(404.2)	(459.0)	(436.7)
Net retirement benefit asset/(liability) recognised in the balance sheet	19.9	50.9	61.5	8.9	(105.6)
Experience gains/(losses) on scheme assets					
– amount (£m)	29.9	(78.9)	0.1	7.1	30.3
– percentage of scheme assets (%)	6.4	(19.2)	–	1.5	9.2
Experience gains/(losses) on scheme liabilities					
– amount (£m)	10.3	–	(0.5)	(12.8)	–
– percentage of scheme liabilities (%)	2.3	–	(0.1)	(2.8)	–

The history of the net retirement benefit asset/(liability) recognised in the balance sheet and experience adjustments for the company is as follows:

					Company
	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	116.8	99.9	117.4	60.0	41.9
Present value of funded defined benefit obligation	(110.7)	(83.8)	(97.9)	(59.5)	(56.6)
Net retirement benefit asset/(liability) recognised in the balance sheet	6.1	16.1	19.5	0.5	(14.7)
Experience gains/(losses) on scheme assets					
– amount (£m)	10.4	(24.5)	(3.9)	0.9	4.1
– percentage of scheme assets (%)	8.9	(24.5)	(3.3)	1.5	9.8
Experience gains/(losses) on scheme liabilities					
– amount (£m)	3.3	–	(0.1)	(1.9)	–
– percentage of scheme liabilities (%)	3.0	–	(0.1)	(3.2)	–

(b) Pension schemes – defined contribution

The group operates a stakeholder pension plan into which group companies contribute a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice (typically ranging between 3.0% and 8.0%). The assets of the scheme are held separately from those of the group and company. The pension charge in the consolidated income statement represents contributions payable by the group in respect of the plan and amounted to £3.2m for the year ended 31 December 2009 (2008: £1.5m). Contributions made by the company amounted to £0.2m (2008: £0.1m). No contributions were payable to the fund at the year end (2008: £nil).

The group contributed £0.1m to personal pension plans in the year (2008: £0.1m).

19 Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet liability method and is measured at 28.0%. The movement in the deferred tax asset/(liability) during the year can be analysed as follows:

	Group		Company	
Asset/(liability)	2009 £m	2008 £m	2009 £m	2008 £m
At 1 January	(0.5)	(6.1)	1.3	(5.0)
(Charge)/credit to the income statement (note 5)	(2.3)	(4.1)	1.2	(0.5)
Credit on items taken directly to equity	10.6	9.7	2.8	6.8
Transfer to retained earnings	(0.1)	–	(0.1)	–
At 31 December	7.7	(0.5)	5.2	1.3

An analysis of the deferred tax asset/(liability) for the group is set out below:

	2009				2008			
Group – asset/(liability)	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m
At 1 January	(0.8)	14.6	(14.3)	(0.5)	(0.5)	9.2	(14.8)	(6.1)
Credit/(charge) to the income statement	0.3	(0.9)	(1.7)	(2.3)	(0.3)	0.5	(4.3)	(4.1)
Credit on items taken directly to equity	–	0.2	10.4	10.6	–	4.9	4.8	9.7
Transfer to retained earnings	–	(0.1)	–	(0.1)	–	–	–	–
At 31 December	(0.5)	13.8	(5.6)	7.7	(0.8)	14.6	(14.3)	(0.5)

An analysis of the deferred tax asset/(liability) for the company is set out below:

	2009				2008			
Company – asset/(liability)	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m
At 1 January	–	5.8	(4.5)	1.3	–	0.1	(5.1)	(5.0)
Credit/(charge) to the income statement	0.1	1.3	(0.2)	1.2	–	0.3	(0.8)	(0.5)
(Charge)/credit on items taken directly to equity	–	(0.2)	3.0	2.8	–	5.4	1.4	6.8
Transfer to retained earnings	–	(0.1)	–	(0.1)	–	–	–	–
At 31 December	0.1	6.8	(1.7)	5.2	–	5.8	(4.5)	1.3

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

20 Cash and cash equivalents

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Cash at bank and in hand	20.3	19.5	–	0.5

The currency profile of cash and cash equivalents is as follows:

	Group		Company	
Currency	2009 £m	2008 £m	2009 £m	2008 £m
Sterling	19.9	19.4	–	0.5
Euro	0.4	0.1	–	–
Total	20.3	19.5	–	0.5

Cash and cash equivalents are non-interest bearing (2008: non-interest bearing).

The fair value of cash and cash equivalents approximates to their book value (2008: fair value approximated to book value).

21 Bank and other borrowings

(a) Borrowing facilities and borrowings
Borrowing facilities principally comprise syndicated and bilateral bank facilities arranged for periods of up to five years, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 21(d)), loan notes privately placed with US and UK institutions (see note 21(e)) and subordinated loan notes (see note 21(f)).

As at 31 December 2009, borrowings under these facilities amounted to £890.3m (2008: £828.5m).

(b) Maturity profile of bank and other borrowings
The maturity of borrowings, together with the maturity of facilities, is as follows:

	2009		2008	
Group	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	27.9	5.8	25.4	2.6
In less than one year	116.9	66.9	1.4	1.4
Included in current liabilities	144.8	72.7	26.8	4.0
Between one and two years	272.3	166.3	315.8	270.0
Between two and five years	570.3	395.3	607.3	401.9
In more than five years	256.0	256.0	152.6	152.6
Included in non-current liabilities	1,098.6	817.6	1,075.7	824.5
Total group	1,243.4	890.3	1,102.5	828.5

	2009		2008	
Company	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	25.6	3.5	22.4	1.0
In less than one year	89.6	39.6	–	–
Included in current liabilities	115.2	43.1	22.4	1.0
Between one and two years	252.9	121.6	285.7	239.9
Between two and five years	276.9	127.2	333.7	128.3
In more than five years	256.0	256.0	100.0	100.0
Included in non-current liabilities	785.8	504.8	719.4	468.2
Total company	901.0	547.9	741.8	469.2

21 Bank and other borrowings – continued

The weighted average period to maturity of the group's committed facilities was 3.5 years (2008: 3.0 years) and for the company's committed facilities was 3.9 years (2008: 2.8 years). On 26 February 2010, the group secured an extension to its syndicated bank facilities due to expire on 9 March 2011 and 9 March 2012. Of the £213.2m due to expire on 9 March 2011, £135.7m has been extended to 9 May 2013 and £4.8m has been extended to 9 March 2012, and of the £436.8m due to expire on 9 March 2010, £243.8m has been extended to 9 May 2013. Including this extension, the weighted average period to maturity of the group's committed facilities was 4.0 years and the weighted average period to maturity of the company's committed facilities was 4.1 years.

(c) Interest rate and currency profile of bank and other borrowings
Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the group and company, the interest rate and foreign exchange rate exposure on borrowings is as follows:

	2009			2008		
Group	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	300.0	389.9	689.9	144.0	463.0	607.0
US dollar	153.0	–	153.0	170.7	–	170.7
Euro	–	47.4	47.4	–	50.8	50.8
Total group	453.0	437.3	890.3	314.7	513.8	828.5

	2009			2008		
Company	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	298.0	187.6	485.6	142.0	259.6	401.6
US dollar	14.9	–	14.9	16.8	–	16.8
Euro	–	47.4	47.4	–	50.8	50.8
Total company	312.9	235.0	547.9	158.8	310.4	469.2

As detailed in note 16, the group and company have entered into various interest rate swaps and cross-currency swap arrangements to hedge the interest rate and foreign exchange rate exposures on borrowings. After taking account of the aforementioned interest rate swaps, the group's fixed rate borrowings are £789.6m (2008: £704.1m) and the company's fixed rate borrowings are £510.8m (2008: £421.8m). After taking account of cross-currency swaps, the group and company have no foreign exchange rate exposure to borrowings denominated in US dollars (2008: £nil).

(d) Senior public bonds
On 23 October 2009, the company issued £250m of senior public bonds. The bonds have an annual coupon of 8.0% and are repayable on 23 October 2019.

(e) Private placement loan notes
On 10 May 2001, the company issued private placement loan notes as follows:

(i) £42m of 7.21% loan notes repayable on 10 May 2011;
(ii) US$64m of 7.40% loan notes repayable on 10 May 2008*; and
(iii) US$24m of 7.60% loan notes repayable on 10 May 2011.

* Matured and repaid as scheduled on 10 May 2008.

On 24 April 2003, the group issued loan notes as follows:

(i) US$44m of 5.81% loan notes repayable on 24 April 2010; and
(ii) US$76m of 6.34% loan notes repayable on 24 April 2013.

On 12 August 2004, the group issued loan notes as follows:

(i) US$30m of 6.02% loan notes repayable on 12 August 2011;
(ii) US$67m of 6.45% loan notes repayable on 12 August 2014; and
(iii) £2m of 7.01% loan notes repayable on 12 August 2014.

As set out in note 21(c), cross-currency swaps have been put in place to swap the proceeds and liabilities for principal and interest under the US dollar denominated loan notes into sterling.

(f) Subordinated loan notes
On 15 June 2005, the company issued £100.0m of subordinated loan notes. The rights to repayment of holders of the loan notes are subordinated to all other borrowings and liabilities of the company upon a winding up of the company and, in certain circumstances, upon its administration. The debt accrues interest at 7.125% and is repayable on 15 June 2015. The company has an option to redeem the loan notes at par on 15 June 2010.

21 Bank and other borrowings – continued

On 23 October 2009, in conjunction with the issue of the senior public bonds, Provident Financial Investments Limited (PFIL), a subsidiary undertaking of the company, purchased £94.0m of the subordinated loan notes at 97.5% following a tender offer. The 2.5% discount on the re-purchased subordinated loan notes, amounting to £2.4m, has been credited to the group income statement in 2009 following the extinguishment of the existing liability and its replacement with a new debt instrument of substantially different terms (see note 3).

The purchase of the subordinated loan notes by PFIL was funded by an intra-group loan from the company. On 23 December 2009, the company and PFIL agreed to waive the respective amounts owed to each other under the intra-group loan and the subordinated loan notes. Accordingly, the outstanding amount of subordinated loans in both the company and group balance sheet as at 31 December 2009 amounts to £6.0m (2008: £100.0m)

(g) Loan notes issued to vendors on acquisition of Yes Car Credit
As part of the consideration for the acquisition of Yes Car Credit, the group issued loan notes of £6.7m to certain vendors which carried interest rates linked to LIBOR and were due for repayment on 30 June 2009. The residual outstanding loan notes were fully repaid on their maturity and, accordingly, £nil of the loan notes remain outstanding as at 31 December 2009 (2008: £1.4m).

(h) Undrawn committed borrowing facilities
The undrawn committed borrowing facilities at 31 December were as follows:

	Group	
	2009 £m	2008 £m
Expiring within one year	50.0	–
Expiring within one to two years	131.4	45.8
Expiring in more than two years	149.6	205.4
Total group	331.0	251.2

	Company	
	2009 £m	2008 £m
Expiring within one year	50.0	–
Expiring within one to two years	131.4	45.8
Expiring in more than two years	149.6	205.4
Total company	331.0	251.2

(i) Weighted average interest rates and periods to maturity
Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the group and company, the weighted average interest rate and the weighted average period to maturity of the group and company's fixed rate borrowings is as follows:

	2009		2008	
Group	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	7.87	8.51	7.15	5.25
US dollar	6.37	2.64	6.37	3.64

	2009		2008	
Company	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	7.87	8.54	7.15	5.24
US dollar	7.60	1.36	7.60	2.36

After taking account of interest rate swaps and cross-currency swaps, the sterling weighted average fixed interest rate for the group is 6.37% (2008: 5.57%) and for the company is 6.94% (2008: 5.78%). The sterling weighted average period to maturity on the same basis is 4.5 years (2008: 2.0 years) for the group and 6.0 years (2008: 2.7 years) for the company. There is £nil foreign exchange or interest rate risk denominated in US dollars after taking account of cross-currency swaps (2008: £nil).

21 Bank and other borrowings – continued

(j) Fair values

The fair values of the group and company's bank and other borrowings are compared to their book values as follows:

	2009		2008	
Group	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	437.3	437.3	513.8	513.8
Senior public bonds	250.0	260.0	–	–
Sterling private placement loan notes	44.0	47.5	44.0	49.0
US dollar private placement loan notes	153.0	157.5	170.7	174.4
Subordinated loan notes	6.0	5.9	100.0	110.0
Total group	890.3	908.2	828.5	847.2

	2009		2008	
Company	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	235.0	235.0	310.4	310.4
Senior public bonds	250.0	260.0	–	–
Sterling private placement loan notes	42.0	45.3	42.0	46.6
US dollar private placement loan notes	14.9	17.7	16.8	3.0
Subordinated loan notes	6.0	5.9	100.0	110.0
Total company	547.9	563.9	469.2	470.0

The fair value of the sterling private placement loan notes and the US dollar private placement loan notes has been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date. The fair value of the senior public bonds and subordinated loan notes equates to their publicly quoted market price at the balance sheet date.

22 Trade and other payables

	Group		Company	
Current liabilities	2009 £m	2008 £m	2009 £m	2008 £m
Trade payables	6.3	10.3	–	–
Amounts owed to group undertakings	–	–	109.2	100.3
Other payables including taxation and social security	13.2	16.5	2.0	2.2
Accruals	28.5	37.2	15.4	13.2
Total	48.0	64.0	126.6	115.7

The fair value of trade and other payables equates to their book value (2008: fair value equalled book value). The amounts owed to group undertakings are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR.

	Company	
Non-current liabilities	2009 £m	2008 £m
Amounts owed to group undertakings	131.3	131.3

The amounts owed to group undertakings are unsecured, due for repayment in more than one year and accrue interest at rates linked to LIBOR.

23 Provisions

Group	Onerous property obligations 2009 £m	2008 £m
At 1 January	2.0	2.8
Utilised in the year	(1.2)	(0.8)
At 31 December	0.8	2.0
Analysed as – due within one year	0.8	0.8
– due in more than one year	–	1.2
Total group	0.8	2.0

The onerous property provision was originally created on closure of Yes Car Credit and related to the estimated costs of exiting the Yes Car Credit property portfolio. The provision was calculated by taking into account the full lease term, any sublet income that was recoverable and the potential for lease assignment. As at 31 December 2009, two properties await disposal and the remaining provision of £0.8m is expected to be fully utilised during 2010.

24 Called-up share capital

	Group and company 2009		2008	
	Authorised	Issued and fully paid	Authorised	Issued and fully paid
Ordinary shares of 20⁸⁄₁₁p each – £m	40.0	27.9	40.0	27.3
– number (m)	193.0	134.4	193.0	131.6

The movement in the number of shares in issue during the year was as follows:

	Group and company 2009 Number m	2008 Number m
At 1 January	131.6	131.2
Shares issued pursuant to the exercise of options	2.8	0.4
At 31 December	134.4	131.6

The shares issued pursuant to the exercise of options comprised 2,825,147 ordinary shares (2008: 392,502) with a nominal value of £585,576 (2008: £81,355) and an aggregate consideration of £8.4m (2008: £2.0m).

Provident Financial plc sponsors the Provident Financial plc 2007 Employee Benefit Trust (EBT) which is a discretionary trust established for the benefit of the employees of the group. The company has appointed Kleinwort Benson (Jersey) Trustees Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2009, the EBT held 2,452,799 (2008: 1,507,849) shares in the company with a nominal value of £508,398 (2008: £312,536), a cost of £13.7m (2008: £13.0m) and a market value of £23.0m (2008: £13.0m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006.

In addition to the EBT, Provident Financial plc also sponsors the Provident Financial Qualifying Employee Share Ownership Trust (the QUEST) which is also a discretionary trust established for the benefit of the employees of the group. The company established Provident Financial Trustees Limited to act as trustee of the QUEST. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2009 and 31 December 2008, the QUEST did not hold any ordinary shares in the company.

Provident Financial plc also sponsors the Performance Share Plan Trust which was established to operate in conjunction with the Performance Share Plan (PSP). As at 31 December 2009, awards under the PSP were 635,033 (2008: 285,195) ordinary shares with a nominal value of £131,625 (2008: £59,113), a cost of £2.4m (2008: £2.3m) and a market value of £5.9m (2008: £2.5m).

All costs relating to the EBT, the QUEST and the PSP are dealt with in the income statement as they accrue. The net of the consideration paid to acquire shares by the EBT, the QUEST and in respect of the PSP and the consideration received on exercise of share options is held in a separate treasury shares reserve.

25 Share-based payments

The group operates four share schemes: the Long-Term Incentive Scheme (LTIS), employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)), senior executive share option schemes (ESOS/SESO) and the Performance Share Plan (PSP). During 2009, awards/options have been granted under the LTIS, PSP and SAYE schemes (2008: awards/options granted under the LTIS, PSP and SAYE schemes).

For the purposes of assessing the income statement charge under IFRS 2, the options/awards under the SAYE, ESOS/SESO and PSP schemes were valued using a binomial option pricing model. The awards made under the LTIS in 2006, 2007 and 2008 were valued using a Monte Carlo option pricing model and the awards under the LTIS in 2009 were valued using a combination of the Monte Carlo and binomial option pricing models.

The charge to the income statement in 2009 was £6.1m for the group (2008: £4.7m) and £2.9m for the company (2008: £2.1m).

The fair value per award/option granted and the assumptions used in the calculation of the share-based payment charge are as follows:

			2009			2008
Group	LTIS	PSP	SAYE	LTIS	PSP	SAYE
Grant date	8 May 09	4 Mar 09 – 8 May 09	2 Sep 09	5 Mar 08	5 Mar 08	27 Aug 08
Share price at grant date (£)	8.92	8.03 – 8.60	8.83	8.04	8.04	8.94
Exercise price (£)	–	–	6.56	–	–	7.04
Shares awarded/under option (number)	883,931	370,273	460,234	786,574	264,546	365,785
Vesting period (years)	3	3	3, 5 and 7	3	3	3, 5 and 7
Expected volatility	37.9%	37.8% – 37.9%	31.8% to 37.3%	31.6%	31.6%	30.6% to 34.6%
Award/option life (years)	3	3	Up to 7	3	3	Up to 7
Expected life (years)	3	3	Up to 7	3	3	Up to 7
Risk-free rate	2.08%	1.73% – 2.08%	1.98% to 3.10%	4.00%	4.00%	4.40% to 4.60%
Expected dividends expressed as a dividend yield	n/a	n/a	7.20%	n/a	n/a	7.60%
Fair value per award/option (£)	5.04	8.03 – 8.60	1.74 to 2.18	4.42	8.04	1.68 to 2.09

			2009			2008
Company	LTIS	PSP	SAYE	LTIS	PSP	SAYE
Grant date	8 May 09	4 Mar 09 – 8 May 09	2 Sep 09	5 Mar 08	5 Mar 08	27 Aug 08
Share price at grant date (£)	8.92	8.03 – 8.60	8.83	8.04	8.04	8.94
Exercise price (£)	–	–	6.56	–	–	7.04
Shares awarded/under option (number)	427,650	256,035	12,619	329,880	163,794	12,825
Vesting period (years)	3	3	3, 5 and 7	3	3	3, 5 and 7
Expected volatility	37.9%	37.8% – 37.9%	31.8% to 37.3%	31.6%	31.6%	30.6% to 34.6%
Award/option life (years)	3	3	Up to 7	3	3	Up to 7
Expected life (years)	3	3	Up to 7	3	3	Up to 7
Risk-free rate	2.08%	1.73% – 2.08%	1.98% to 3.10%	4.00%	4.00%	4.40% to 4.60%
Expected dividends expressed as a dividend yield	n/a	n/a	7.2%	n/a	n/a	7.60%
Fair value per award/option (£)	5.04	8.03 – 8.60	1.87 to 2.18	4.42	8.04	1.82 to 2.09

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero coupon UK government bonds.

25 Share-based payments – continued

A reconciliation of award/share option movements during the year is shown below:

Group	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2009	1,652,082	–	1,437,976	5.94	1,438,534	5.98	285,195	–
Awarded/granted	883,931	–	–	–	460,234	6.56	370,273	–
Lapsed	(95,283)	–	(235,845)	6.83	(108,923)	6.54	(10,820)	–
Exercised	(124,561)	–	(1,093,047)	4.66	(370,916)	4.62	(9,615)	–
Outstanding at 31 December 2009	2,316,169	–	109,084	6.06	1,418,929	6.39	635,033	–
Exercisable at 31 December 2009	–	–	109,084	6.06	8,908	4.81	–	–

Share awards outstanding under the LTIS scheme at 31 December 2009 had an exercise price of £nil (2008: £nil) and a weighted average remaining contractual life of 1.4 years (2008: 1.8 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2009 had exercise prices ranging from 577p to 709p (2008: 522p to 979p) and a weighted average remaining contractual life of nil years (2008: 0.4 years). Share options outstanding under the SAYE schemes at 31 December 2009 had exercise prices ranging from 453p to 716p (2008: 453p to 716p) and a weighted average remaining contractual life of 2.7 years (2008: 2.5 years). Share awards outstanding under the PSP schemes at 31 December 2009 had an exercise price of £nil (2008: £nil) and a weighted average remaining contractual life of 1.7 years (2008: 2.1 years).

Group	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2008	903,893	–	1,828,346	6.45	1,513,720	5.50	20,649	–
Awarded/granted	786,574	–	–	–	365,785	7.04	264,546	–
Lapsed	(38,385)	–	(343,532)	8.24	(105,972)	5.78	–	–
Exercised	–	–	(46,838)	7.02	(334,999)	5.04	–	–
Outstanding at 31 December 2008	1,652,082	–	1,437,976	5.94	1,438,534	5.98	285,195	–
Exercisable at 31 December 2008	–	–	149,606	7.96	28,567	4.94	–	–

Financial statements

25 Share-based payments – continued

Company	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2009	861,003	–	506,530	5.89	50,708	5.89	172,696	–
Awarded/granted	427,650	–	–	–	12,619	6.56	256,035	–
Lapsed	(58,688)	–	(59,368)	5.26	(412)	5.31	–	–
Exercised	(124,561)	–	(397,396)	6.44	(14,011)	4.53	(2,917)	–
Outstanding at 31 December 2009	1,105,404	–	49,766	6.22	48,904	6.33	425,814	–
Exercisable at 31 December 2009	–	–	49,766	6.22	–	–	–	–

Share awards outstanding under the LTIS scheme at 31 December 2009 had an exercise price of £nil (2008: £nil) and a weighted average remaining contractual life of 1.4 years (2008: 1.6 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2009 had exercise prices ranging from 577p to 709p (2008: 577p to 979p) and a weighted average remaining contractual life of nil years (2008: 0.4 years). Share options outstanding under the SAYE schemes at 31 December 2009 had exercise prices ranging from 491p to 716p (2008: 453p to 716p) and a weighted average remaining contractual life of 2.6 years (2008: 3.2 years). Share awards outstanding under the PSP schemes at 31 December 2009 had an exercise price of £nil (2008: £nil) and a weighted average remaining contractual life of 1.8 years (2008: 2.1 years).

Company	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2008	532,516	–	595,282	7.38	64,784	5.58	8,902	–
Awarded/granted	329,880	–	–	–	12,825	7.04	163,794	–
Lapsed	(1,393)	–	(88,752)	8.72	(9,086)	5.52	–	–
Exercised	–	–	–	–	(17,815)	5.78	–	–
Outstanding at 31 December 2008	861,003	–	506,530	5.89	50,708	5.89	172,696	–
Exercisable at 31 December 2008	–	–	29,260	7.88	737	5.07	–	–

26 Other reserves

Group	Profit retained by subsidiary £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2008	0.8	3.6	0.4	(7.3)	2.6	0.1
Other comprehensive income:						
– cash flow hedges (note 16)	–	–	(17.3)	–	–	(17.3)
– tax on other comprehensive income	–	–	4.9	–	–	4.9
Other comprehensive income for the year	–	–	(12.4)	–	–	(12.4)
Transactions with owners:						
– purchase of own shares	–	–	–	(8.7)	–	(8.7)
– share-based payment charge (note 25)	–	–	–	–	4.7	4.7
At 31 December 2008	0.8	3.6	(12.0)	(16.0)	7.3	(16.3)
At 1 January 2009	0.8	3.6	(12.0)	(16.0)	7.3	(16.3)
Other comprehensive income:						
– cash flow hedges (note 16)	–	–	(0.8)	–	–	(0.8)
– tax on other comprehensive income	–	–	0.2	–	–	0.2
Other comprehensive income for the year	–	–	(0.6)	–	–	(0.6)
Transactions with owners:						
– purchase of own shares	–	–	–	(0.9)	–	(0.9)
– share-based payment charge (note 25)	–	–	–	–	6.1	6.1
– share-based payment reserve transfer	–	–	–	–	(1.3)	(1.3)
At 31 December 2009	0.8	3.6	(12.6)	(16.9)	12.1	(13.0)

26 Other reserves – continued

Company	Non-distributable reserve £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2008	609.2	2.3	3.6	–	(7.3)	2.6	610.4
Other comprehensive income:							
– cash flow hedges (note 16)	–	–	–	(19.7)	–	–	(19.7)
– tax on other comprehensive income	–	–	–	5.4	–	–	5.4
Other comprehensive income for the year	–	–	–	(14.3)	–	–	(14.3)
Transactions with owners:							
– purchase of own shares	–	–	–	–	(8.7)	–	(8.7)
– share-based payment charge (note 25)	–	–	–	–	–	2.1	2.1
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	2.6	2.6
At 31 December 2008	609.2	2.3	3.6	(14.3)	(16.0)	7.3	592.1
At 1 January 2009	609.2	2.3	3.6	(14.3)	(16.0)	7.3	592.1
Other comprehensive income:							
– cash flow hedges (note 16)	–	–	–	0.9	–	–	0.9
– tax on other comprehensive income	–	–	–	(0.2)	–	–	(0.2)
Other comprehensive income for the year	–	–	–	0.7	–	–	0.7
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.9)	–	(0.9)
– share-based payment charge (note 25)	–	–	–	–	–	2.9	2.9
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	3.2	3.2
– share-based payment reserve transfer	–	–	–	–	–	(1.3)	(1.3)
At 31 December 2009	609.2	2.3	3.6	(13.6)	(16.9)	12.1	596.7

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The non-distributable reserve was created as a result of an intra-group reorganisation to create a more efficient capital structure that more accurately reflects the group's management structure.

27 Commitments

Commitments under operating leases are as follows:

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Due within one year	8.7	9.1	–	0.3
Due between one and five years	21.4	17.6	–	0.2
Due in more than five years	5.3	4.2	–	–
Total	35.4	30.9	–	0.5

Other group commitments are as follows:

	Group	
	2009 £m	2008 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	1.1	0.4

The company has £nil capital expenditure commitments contracted with third parties but not provided for at 31 December 2009 (2008: £nil).

	Group	
	2009 £m	2008 £m
Unused committed credit card facilities at 31 December	88.7	82.9

The company has £nil unused committed credit card facilities at 31 December 2009 (2008: £nil).

28 Related party transactions

The company recharges the pension scheme referred to in note 18 with a proportion of the costs of administration and professional fees incurred by the company. The total amount recharged during the year was £0.9m (2008: £1.1m) and the amount due from the pension scheme at 31 December 2009 was £0.4m (2008: £0.5m).

Details of the transactions between the company and its subsidiary undertakings, which comprise management recharges and interest charges or credits on intra-group balances, along with any balances outstanding at 31 December are set out below:

	2009			2008		
Company	Management recharge £m	Interest charge/(credit) £m	Outstanding balance £m	Management recharge £m	Interest charge/(credit) £m	Outstanding balance £m
Consumer Credit Division	4.5	40.7	1,052.6	4.5	71.6	1,065.8
Vanquis Bank	1.1	13.4	198.6	1.0	8.7	160.0
Yes Car Credit	–	0.5	(3.8)	–	3.0	(2.0)
Other central companies	–	(0.2)	(154.8)	–	(0.4)	(156.6)
Total	5.6	54.4	1,092.6	5.5	82.9	1,067.2

During 2009, the company received the following dividends from subsidiary companies forming part of the Consumer Credit Division:

- £30.0m from Provident Financial Management Services Limited (2008: £40.0m).
- £nil from N&N Cheque Encashment Limited (2008: £0.6m).

There are no transactions with directors other than those disclosed in the directors' remuneration report.

Financial statements

29 Contingent liabilities

As part of the demerger of the international business, the company agreed, subject to the application of a floor, to indemnify International Personal Finance plc (IPF) against a specified proportion of corporate income tax liabilities, and related interest and penalties, in respect of the tax returns of Provident Polska for certain periods ended prior to completion. In addition, subject to certain exceptions, the company has indemnified IPF against tax liabilities arising as a result of the demerger and certain pre-demerger reorganisation steps and against tax liabilities arising as a result of a member of the Provident Financial group making a chargeable payment within the meaning of Section 214 Income and Corporations Taxes Act 1988. No material liabilities are currently expected to arise under these indemnities.

The company has a contingent liability for guarantees given in respect of borrowing facilities of certain subsidiaries to a maximum of £672.0m (2008: £602.2m). At 31 December 2009, the fixed and floating rate borrowings in respect of these guarantees amounted to £340.8m (2008: £359.3m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2009 was £nil (2008: £nil).

30 Reconciliation of profit after taxation to cash generated from operations

		Group		Company	
		2009	2008	2009	2008
	Note	£m	£m	£m	£m
Profit after taxation		88.6	92.1	30.6	70.7
Adjusted for:					
Tax charge/(credit)	5	37.1	36.7	(3.3)	10.5
Finance costs	3	58.2	45.7	53.8	32.8
Finance income		–	–	(57.2)	(84.0)
Dividends received	28	–	–	(30.0)	(40.6)
Share-based payment charge	25	6.1	4.7	2.9	2.1
Retirement benefit charge/(credit)	18	2.7	(1.2)	0.9	(0.4)
Amortisation of intangible assets	11	3.8	1.7	–	–
Depreciation of property, plant and equipment	12	8.2	7.5	0.4	0.4
Loss on disposal of property, plant and equipment	12	0.3	0.3	0.1	0.1
Release of impairment in investments in subsidiaries	13	–	–	–	(0.4)
Changes in operating assets and liabilities:					
Amounts receivable from customers		(76.0)	(137.9)	–	–
Trade and other receivables		(10.1)	3.6	(35.6)	(59.4)
Trade and other payables		(17.0)	(6.5)	8.6	(50.3)
Retirement benefit asset		(8.4)	(5.3)	(1.5)	(1.1)
Derivative financial instruments		0.4	0.3	–	0.7
Provisions		(1.2)	(0.8)	–	–
Cash generated from/(used in) operations		92.7	40.9	(30.3)	(118.9)

Independent auditors' report

Independent auditors' report to the members of Provident Financial plc

We have audited the financial statements of Provident Financial plc for the year ended 31 December 2009 which comprise the consolidated income statement, the group and company statements of comprehensive income, the group and company balance sheets, the group and company statements of changes in shareholders' equity, the group and company statements of cash flows, the statement of accounting policies, financial and capital risk management and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 63, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2009 and of the group's profit and group's and company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 50 to 63 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 63, in relation to going concern; and
- the parts of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
2 March 2010

Information for shareholders

1 Financial calendar – final dividend

	2009 Final
Dividend announced	2 March 2010
Annual general meeting	5 May 2010
Ex-dividend date for ordinary shares	12 May 2010
Record date for the dividend	14 May 2010
Payment date of the dividend	21 June 2010

2 Share price

Information on our share price is available on the company's website, www.providentfinancial.com and on Ceefax on BBC1/BBC2. Information is also available, at a cost, from FT Cityline (telephone: 09058 171 690).

The share price is also listed in a number of daily newspapers.

3 Individual Savings Account (ISA)

Shareholders may take out an ISA which includes shares in the company with a provider of their choice. However, the company has made arrangements for its shareholders and employees with Redmayne Bentley for the provision of an ISA. Shareholders who are eligible and who wish to take advantage of this should contact Redmayne Bentley, Merton House, 84 Albion Street, Leeds LS1 6AG (telephone: 0113 200 6433).

4 Tax on dividends

A UK tax resident individual shareholder who receives a dividend is entitled to a tax credit in respect of the dividend.

The tax credit is $\frac{1}{9}$th of the dividend (corresponding to 10% of the dividend and the associated tax credit).

A UK tax resident individual shareholder is therefore treated as having paid tax at 10% on the aggregate of the dividend and the associated tax credit; as starting and basic rate taxpayers are liable to tax on the dividend and the associated tax credit at 10%, they will have no further liability to tax in respect of the dividend. UK tax resident individuals cannot claim a refund of the 10% tax credit.

The tax liability on dividends for UK tax resident higher rate taxpayers is an amount equal to 32.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 25% of the dividend.

5 Registrar

5.1 The registrar deals with all matters relating to transfers of ordinary shares in the company and with enquiries concerning holdings. The registrar is: Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0GA, telephone: 0871 664 0300 (calls cost 10p a minute plus network extras, lines are open 8.30am-5.30pm Mon-Fri).

5.2 The registrar's website is www.capitaregistrars.com. This will give you access to your personal shareholding by means of your investor code (which is printed on your share certificate). A range of services is available to shareholders including: setting up or amending dividend bank mandates; proxy voting and amending personal details. Most services will require a user ID and password which will be provided on registration.

6 Special Requirements

A black and white large text version of this document (without pictures) is available on request from the Company Secretary at the address below. A fully accessible html version of the annual report and financial statements is also available on our website which renders all of the text readable by voice browsers and screen readers.

7 Advisers

Independent auditors
PricewaterhouseCoopers LLP

Financial advisers and stockbrokers
JPMorgan Cazenove

Registrar
Capita Registrars

Solicitors
Addleshaw Goddard LLP
Allen & Overy LLP
Eversheds LLP
Slaughter and May

8 Company details

Registered office and contact details:

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Company number
668987

Financial statements

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